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Exploring Factors that Contribute to Individual Indebtedness among Young Muslims

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ABSTRACT

This research was aimed at exploring the factors that contribute to individual indebtedness among young Muslims. A total of 350 questionnaires were distributed to the target group within the age range of 25 and 45 years old who are facing debt problems and undergoing financial counselling from AKPK in the Northern region of Malaysia, which encompasses the states of Perak, Pulau Pinang and Kedah/Perlis. Of the 350 questionnaires distributed, 149 were usable as the level of debt of the respondents was 40% and above of the total monthly income. The results revealed that the factors contribute to individual indebtedness are personality extraversion, personality neuroticism, lifestyle impulsive buying, purchasing for lifestyle, parental guidance, religious practice and religious principal.

Keywords: Individual Indebtedness, Young Muslims, Factors
JEL Classification: M12

1. INTRODUCTION

The robust expansion of loans to the household sector has led to rising household debt (Rahman and Masih, 2014). Malaysian household debt increased from RM465.2 billion in 2008 to RM1010.8 billion as at end-2015. According to Dr. Zeti Akhtar Aziz, the former governor of Bank Negara Malaysia (BNM), the ratio of household debt to gross domestic product (GDP) continued to be high at 89.1% in 2015 as compared to 86.7% in 2013 (BNM, 2015). Raj et al., (2013) noted that in 2013, the ratio of household debt to GDP in Malaysia was the highest among the developing countries in Asia. The ratio of household debt to GDP for Singapore and Hong Kong was 67% and 59%, respectively.

In Malaysia, the increase in household debt annually is not only attributable for meeting the basic needs in life (Abidin et al., 2013). Sabri (2014) stated that Malaysians, especially the Muslims, are highly indebted as they seek to fulfil their lifestyle needs such as buying a home, car, business and investment shares. Sabri (2014) further stated that this is coupled with the emergence of innovative and easily accessible consumer banking products such as personal loans, overdraft and credit cards, that have led to an increase in bankruptcy cases among the Muslims in the country.

The increase in the level of debt among Malaysians has led to an increase in bankruptcy cases. The situation is increasingly worrisome as the statistics released by the Malaysian Department of Insolvency showed that 61,372 individuals aged between 25 and 45 years old have been declared bankrupt since 2010. Bankruptcy cases recorded between January and April 2015 totalled 107,000, of which 1469 were individuals aged 25 years and below (Utusan Malaysia, June 2015). The average age of those involved in bankruptcy cases is 40 years and below (Elangkovan and Latif, 2013). Bankruptcies affect people's lives, as it not only involves loss of property, reputation but also peace of mind and relationship with the family (Muzammil, 2014).

AKPK, an agency under BNM, reported that since its establishment in 2006, about 140,000 people have participated in the Debt Management Program initiated by the agency. Majority of the participants were in the 30-45 years old group (AKPK, 2015). This reflects that a large number of young people are experiencing problems in managing their debt.

A review of the literature suggests that the cause of debt problems is associated with the ability of an individual. Affordability describes the extent to which an individual has the ability to acquire something (Hancock, 1993). The definition of individual ability is not much discussed in academic literature as the discussions are more focussed on the practical aspects, especially the ability to own a home (Hancock, 1993). According to Hancock (1993), an individual's ability is usually viewed in terms of the cost of the house purchased and personal income or the size of loans against income. Ability is also defined as eligibility of an individual to make the purchase either through cash or debt. Any expense that exceeds the capabilities of individuals would result in debts. The diversity of financial products in the market draws people into debt, given the easy access to the debt products offered by the financial institutions (Raj et al., 2013). This could lead people to owe more than their capability to service the debts and consequently their inability to repay would result in indebtedness. In the light of the above, it is crucial to determine the factors that contribute to individual indebtedness among young Muslims.

There are various past researches concerning the factors that contribute to the level of debt among individuals (see for example Livingstone and Lunt, 1992; Davies and Lea, 1995; Norvilitis et al., 2006; Cosma and Pattarin, 2012; Wang et al., 2011; Teoh et al., 2013). However, there is no recent study that focused on the factors that contribute to individual indebtedness among young Muslims. Therefore, this study focuses on exploring the factors that contribute to individual indebtedness among young Muslims in Malaysia.

This paper has five sections. The first is the introduction, followed by a review of the literature in the second section. The third and fourth sections of this paper cover the research methodology and data analysis. The conclusion of the study is provided in the final section.

2. LITERATURE REVIEW

2.1. Personality

Personality is generally defined as the individual emotions, thoughts, character and behaviour patterns that is unique to an individual. The word personality comes from the Latin word "persona" which means mask (Wahiza and Wahat, 2009). This refers to the external behaviour of individuals. The initial definition of personality introduced by Menninger (1930) as cited in Wahiza and Wahat (2009) is that personality is anything that describes a person. This definition is considered inadequate as it involves the state of biology and physiology of a person and does not take into account the external factors. Allport (1961) as cited in Wahiza and Wahat (2009) stated that personality is a dynamic organization in psychological systems in the individual's own soul.

Apart from that, personality factors also affect the level of debt of individuals as a consequence to their attitude towards debt (Tokunaga, 1993; Davies and Lea, 1995; Cosma and Pattarin, 2012). Witt (2002) who conducted a research using factor analysis approach stated that there are five basic personality dimensions. Saucier and Goldberg (1996) labelled these five traits as Extraversion (E), Agreeableness (A), Conscientiousness (C), Neuroticism (N) and Openness to Experiences (O). This model incorporates basic personality dimensions that reflect traits or characteristics.

The first dimension is extraversion, which is one of the five core features believed to make up the human personality. Extraversion is characterized as being sociable, talking a lot, assertive and enthusiastic. Individuals high in extraversion tend to find social stimulation and the opportunity to engage with others. They are described as with full of passion, energetic and positive. The second dimension in this model is agreeableness. This refers to the tendency of individuals to consider and accept the opinions of others. This is because they are more comfortable agreeing than taking it as an opportunity to voice their opinions. They are more likely to cooperate and create confidence in others. On the other hand, individuals who do not have these characteristics prefer to emphasize their own needs more than that of the others.

The third dimension is conscientiousness which means being careful or conscientious. Individuals who have these traits are those who have a goal and focus. In addition, they are responsible, not easily discouraged and success oriented in achieving the goals. In contrast, individuals who do not have these characteristics display half-heartedness and are easily deflected from their goals and more concerned with luxury life. Neuroticism is the fourth dimension of personality. It refers to personality traits that are associated with emotional instability. Individuals with neuroticism would always be negative, nervous and less confident than others while those with emotional stability depict the opposite traits.

The final dimension in the five factor model is openness to experiences. This refers to individuals who are open-minded and are easily attracted to new and innovative things. In contrast, individuals with less openness are more comfortable with their existing life without being interested in change. Each of the dimensions of personality is evaluated and assessed based on the observations on the behaviour of individuals. One of the tools that could be used to investigate the personality dimensions is the Five Factor model. This model is an approach used in psychology to study the human personality trait that constitutes the five personality dimensions identified using factor analysis and is often being used in contemporary psychology (Digman, 1990).

The five personality dimensions have been discussed in previous studies (Nyhus and Webley, 2001; Harrison and Chudry, 2011; Brown and Taylor, 2014). According to Nyhus and Webley (2001), the dimensions of personality such as emotional stability and extraversion determine individual financial behaviour in terms of savings and loans. In addition, agreeableness factor and an inflexible and resolute mind also could explain certain types of savings behaviour. Harrison and Chudry (2011) affirmed that extraversion has a significant relationship with debt behaviour. The study that focused on students found that a student with a high extraversion score had a higher propensity to use debt (Harrison and Chudry, 2011). Another study on the relationship between personality traits and household finances was conducted by Brown and Taylor (2014). They noted that the personality factors of extraversion and openness to experience have a strong influence on household finances, especially debt and asset holdings.

Based on the results of previous studies, it is evident that there is a relationship between personality factors and individual financial management. However, previous studies did not focus on the relationship between personality factors and the level of individual indebtedness. Therefore, in this research, the relationship between the personality factor and level of debt of an individual will be studied. It is hypothesized that there is a relationship between the five personality dimensions factors and level of debt of an individual.

2.2. Lifestyle

Lifestyle is defined as the way of living which represents the manner an individual lives in a society (Sobel, 1981). McNeill (2014) stated that the desire to achieve lifestyle objectives could be linked to the social group that the individual belongs to, which exists within his lifestyle space. Harrison et al., (2015) defined lifestyle as a way of life of an individual that matched the expectation of the social group that they belong to. Therefore, in this study, lifestyle was conceptualized as the way individuals lived their life parallel to how they are perceived by their social group.

Various studies have mentioned that positive attitude towards debt has led to an increase in the total debt incurred by individuals, especially holding on to the concept of "buy first, pay later" to maintain their social image, apart from fulfilling their needs (Livingstone and Lunt, 1992; Davies and Lea, 1995; Cosma and Pattarin, 2012; Wang et al., 2011; Teoh et al., 2013). There are many financial facilities provided by the financial institutions and it includes the availability of credit cards and personal financing. Hence, consumers need not have cash in hand to purchase things that they desire (Watson, 2003). Watson (2003) also stated that the highly materialistic people who maintain a high lifestyle are the great spenders and incur more debt.

A study conducted by Bernthal et al., (2005) related consumer lifestyle with debt from using credit card. Bernthal et al. (2005) stated that owning a credit card has become a norm and has led to rapid debt accumulation.

Harrison et al. (2015) affirmed that individuals borrow not only for the lack of necessities but also to meet their lifestyle expectations. Harrison et al. (2015) stated that those who borrow also incur debt without taking into consideration the family safety net and their future income to repay the debt. The study conducted among students in the United States showed that, on average, students perceived a lower utility in using debt for social and luxury purposes. Hodari et al., (2014) also agreed that lifestyle is one of the reasons accounting for an increase in household debts. In a recent study, Sabri (2014) also pointed out that individuals incur debt not to fulfil their needs but to meet their wants despite it being beyond their means to purchase. The ability to pay back debt is not taken into consideration.

According to AKPK (2015), materialistic culture and living beyond the means are the main factors for debt problems faced by the youths. It led to increased debt burden at a young age due to excessive spending. Thus, this present research hypothesizes that there is a relationship between lifestyle and the level of individual indebtedness based on the previous literature mentioned.

2.3. Financial Literacy

The current concern is a lack of awareness among youths with regard to financial awareness and understanding of the concept of financial planning. Previous research noted that the level of financial knowledge among college students in the UK, Australia and the USA was low and this has resulted in high debt levels, the risk of bankruptcy and the lack of retirement planning skills (Chen and Volpe, 1998; James et al., 2002; Greenspan, 2002; Marriott, 2007; Dale and Bevill, 2007; Lusardi and Mitchell, 2005). Various studies have been conducted on the level of financial literacy among the youths (Chen and Volpe, 1998; Perry and Morris, 2005; Norvilitis et al., 2006; Lusardi and Tufano, 2009).

Chen and Volpe (1998) in their study of 924 undergraduates from 14 college campuses found that those with greater financial knowledge were more likely to keep financial records and therefore able to make the right choices when given a hypothetical scenario regarding financial decisions as compared to students with less financial knowledge. They attributed the increase in debt to some extent to the lack of knowledge in financial management. Perry and Morris (2005) examined the relationship between consumer financial knowledge and financial behavior. They argued that individuals with comprehensive financial knowledge have a tendency to manage their personal finances in responsible manner thus resulting in better financial outcomes.

The findings by Norvilitis et al., (2006) showed that lack of financial knowledge is related to debt. The results from their study also highlighted the need for comprehensive financial literacy education among college students. Lusardi and Tufano (2009) also analyzed debt literacy concepts and considerations when individuals incur debts. Debt literacy was measured by debt literacy tests on the knowledge of the basic concepts related to debt and financial education among a sample of Americans. The study found that there is a relationship between debt literacy and the level of debt. Specifically, individuals with a lower level of debt literacy tend to take loans with higher interest rates (Lusardi and Tufano, 2009).

In addition, a study by the Federal Reserve Bank of New York on financial education and debt behavior among the youths revealed the importance of financial literacy education. It proved that financial education is particularly important in controlling the budget, especially in regard to the use of credit cards and auto debit cards (Brown et al., 2013).

2.4. Financial Planning

Certified Financial Planner Board of Standards (2009) defined personal financial planning or financial planning as a process to determine whether and how an individual could attain the goals in life through appropriate financial resource management. Meanwhile, the National Association of Personal Financial Advisors explained that financial planning is a comprehensive plan and an ongoing process of reviewing the financial situation, determining your financial goals, and achieving goals through proper planning and appropriate actions. Harrison (2005) stated that this process includes a sound financial plan to achieve the present and future goals. This process is also a dynamic process because needs and goals change when an individual moves to different levels in life (Ali et al. 2014). Based on these definitions, it could be summarized that financial planning is a systematic process to achieve the financial goals of an individual.

Past research found that financial planning could serve as a guideline to make the right decisions associated with financial instruments such as debt Florida International University (FIU, 2016; Swart, 2012). FIU, (2016) stated that in controlling the level of debt, the first step involves the determination of current financial situation, that is, analyzing the debt list and the credit balance of the individual's account. From the debt list, the debtor could prioritise the settlement of debt. This approach is also supported by Swart (2012) who maintained that people should have financial plans to manage and control the credit-buying habits. The overuse and misuse of credit could result in a person's debts to far exceed the resources available to repay them. However, in Malaysia, Citi (2008) and Gan (2008) as cited by Boon et al., (2011) were of the view that the practise of personal financial planning is still in the infancy stages. Lack of information and knowledge in financial matters are said to be the main contibutory factors. Individuals should be willing to follow personal financial planning. Chen and Volpe (1998) concluded that college students have no knowledge of personal finance. The low level of knowledge among young people limit their ability to make informed decisions and have better financial planning.

A study by ANZ Banking Group in Australia and New Zealand revealed that 37% of the respondents, including the younger generation, do not have information regarding the amount of money needed to lead a comfortable retirement life. This has caused difficulties in debt management and investment strategies (Louw, 2009). In addition, Swart (2012) revealed that only one out of every ten individuals in South Africa has financial freedom upon retirement. This is due to lack of financial knowledge and planning during the young age which eventually results in financial burden such as the debt trap.

2.5. Parental Guidance

In many cases, the upbringing of the youths in a protective environment has contributed to their inability to make decisions (Herbig and Borstorff, 1995; Heaney, 2007). Parental guidance aimed at forming an emotional connection with the child plays an important role in their development (Otto and Atkinson, 1997; Fan and Chen, 2001; Padilla-Walker and Nelson, 2012; Bradley-Geist and Olson-Buchanan, 2014). It has an impact on the children's decision making skills.

The first empirical study that investigated the linkage between parental guardian involvement and individual's debt was carried out by Pinto et al., (2001). The findings of the study were used to support the public policy proposed by the federal legislation. The policy was related to the requirement for parents or guardians to act as co-obligors in college students' credit card applications. Pinto et al. (2001) found that students whose parents were involved in their acquisition of credit cards have significantly lower credit card balances than the students without parental involvement. The study also found that the credit balances were significantly lower for students whose parents did not provide post-acquisition financial support than for those whose parents did. This is regardless of whether the parent was a co-obligor in the acquisition of the credit card. Hence, parental involvement has an impact on the financial behaviour of the children.

Another research conducted by Shim et al., (2010) concurs that the role of the parent is one of the factors that influences the student's financial learning, attitude and behaviour. The study that used structural equation modelling indicated that the role played by the parent is the greatest predictor of the young adult's financial health. The study revealed that the strength of such parental involvement in predicting financial attitudes and behaviours is not surprising as parents had displayed positive financial behaviour to the children.

Further, a study by Norvilitis and MacLean (2010) also examined the effect of specific parental behaviours, such as facilitating the child, on the student's debt status, particularly on the use of credit card. Norvilitis and MacLean (2010) noted that students whose parents are engaged in more hands-on financial education incur lower levels of debt and have less problematic credit card usage. This denotes that there is a relationship between parental involvement and student's debt status. Therefore, in this present study, parental guidance is expected to have an influence on the level of indebtedness of an individual.

2.6. Religiosity

Very few researches have examined the religiosity aspects and its influence on people's attitude towards debt. Moraru (2012) studied the connection between young people's religiosity and their attitudes toward debts and willingness to repay them. The study was done based on the attitude towards debt scale where young people under the age of 35 were used as respondents. Religious young people are those who consider themselves as religious, pray regularly and regard religion as important part of their daily life. They are more debt averse than non-religious young people. This phenomenon could be explained by the fact that religious people, living in accordance with their religious beliefs, would feel uncomfortable if they are unable to settle their debts. Therefore, they would rather not incur debts knowing that they may not have the capacity to repay them. However, it should be pointed out that this study only involved respondents in Norway.

3. METHODOLOGY

3.1. Participants

The target population for this study was young Muslims within the age group of 25-45 years who are facing debt problems and undergoing financial counseling from AKPK in the Northern region of Malaysia. The classification of northern region was based on AKPK branches in the states of Perak, Pulau Pinang and Kedah/Perlis. The respondents for the research were chosen by using stratified random sampling method in which 350 questionnaires were distributed to the AKPK branches in the three states. Of the 350 questionnaires, 149 were usable as the participants level of debt was 40% and above of the total monthly income. This indicates a high level of indebtedness.

3.2. Materials

The dependent variable used in this study was measured by using a ratio data. The respondents were asked to state the total debt incurred to gauge their level of indebtedness. On the other hand, the independent variables used were measured by applying adapted instruments from various sources. The items were obtained from various literatures, which include 28-items from Bamber and Castka (2006), 7-items from Harrison et al., (2015), 10-items from Shen and Khalifa (2013), 12-items from Chen and Volpe (1998), 6-items from Bradley-Geist and Olson-Buchanan (2014) and 21-items from Tiliouine and Belgoumidi (2009).

3.3. Procedure

Factor analysis was used to examine the components extracted for the factors that contribute to individual indebtedness. Prior to executing factor analysis, a few prerequisites were performed including Kaiser-Meyer-Olkin (KMO), Bartlett, measure of sample adequacy (MSA) and partial correlation tests. According to Meyers et al., (2006), the value of KMO must exceed 0.5 and the Bartlett test must be significant at $\rho < 0.05$. Moreover, the MSA value must be well above 0.5 and the partial correlation value must be below 0.7. For factor analysis, varimax rotation was employed with loading factor 0.5 based on the total number of samples as suggested by Hair et al., (1998). To identify the total components extracted for the variable, this study relied on the eigenvalue and total cumulative eigenvalue percentage. The eigenvalue must exceed 1 and total cumulative eigenvalue must exceed 60%. After extracting the components in the factors that contribute to individual indebtedness, the reliability test was performed to confirm the reliability of the variable.

3.4. Data Analysis

3.4.1. Data screening

The data was screened for multivariate outliers. Due to a few out-of-range values, seven sets of data were identified and recorded as missing data. The final sample size used to conduct the factor analysis was 149 and it fulfilled the minimum number of data required for factor analysis.

3.4.2. Results of factor analysis

The factors that contributed to individual indebtedness among young Muslims were identified by performing factor analysis. The pre requisite tests were executed before factor analysis. The KMO value for personality, lifestyle, financial literacy, parental guidance and religiosity was 0.725, 0.859, 0.716, 0.726 and 0.860, respectively. On the other hand, Bartlett test was significant at $\rho < 0.05$. The MSA values for all items ranged between 0.601 and 0.840 for personality, between 0.619 and 0.925 for lifestyle, between 0.602 and 0.816 for financial literacy, between 0.664 and 0.876 for parental guidance and between 0.628 and 0.923 for religiosity. Thus, all pre requisite requirements were met.

To determine the total number of components in the variables studied, the researchers examined the value of eigenvalue. In this study, the components with eigenvalue above 1.0 were accepted. This study employed factor loading 0.5 in order to indicate items clustered into identified dimension. Table 1 shows that the dimensions extracted and the items converged in the factor

Table 1: Result of actor analysis

Item	Component								
	1	2	3	4	5	6	7	8	9
	E	N	IB	PL	FP	FL	PG	Practice	Principal
Extraversion (Cronbach's Alpha: 0.782)									
I don't talk a lot[a]	0.876								
I have little to say[a]	0.825								
Neuroticism (Cronbach's Alpha: 0.703)									
I get upset easily		0.852							
I have frequent mood swings		0.703							
Impulsive buying (Cronbach's Alpha: 0.861)									
When I see something, I want to buy it although initially it was not in my plan			0.572						
I often buy things spontaneously			0.704						
I often buy things without thinking			0.686						
"Buy now, think about it later" describes me			0.784						

(Contd...)

Table 1: ***(Continued)***

Item	Component								
	1	2	3	4	5	6	7	8	9
	E	N	IB	PL	FP	FL	PG	Practice	Principal
I buy things according to how I feel at the moment			0.694						
I rarely plan most of my purchases			0.533						
Sometimes I am a bit reckless about what I buy			0.721						
Purchasing for lifestyle (Cronbach's Alpha: 0.788)									
I often buy online even if the goods are not necessities				0.592					
The urge to buy online is very strong				0.750					
"Just do it" describes the way I buy things				0.718					
"I see it, I buy it" describes me				0.719					
Sometimes I feel like buying things on the spur-of-the-moment				0.613					
Financial planning (Cronbach's Alpha: 0.760)									
Financial planning involves creating an appropriate financial record keeping system					0.775				
Financial planning involves minimizing tax expenses and insurance					0.791				
Financial planning involves evaluating the types of investments (such as stocks, real estate, bonds) to maximize profits					0.841				
Financial literacy (Cronbach's Alpha: 0.785)									
Financial literacy helps me from incurring loans that will bring problems to me						0.853			
Financial literacy helps me spend wisely						0.846			
Parental guidance (Cronbach's Alpha: 0.828)									
Parent/guardian . ask me about my financial position							0.799		
Parent/guardian help me . if I run into financial problems							0.672		
Parent/guardian . help me in solving my financial problems							0.637		
I . get advice from parent/guardian regarding how I spent my money							0.739		
Parent/guardian . give me advice on prudent financial management							0.772		
Religious practice (Cronbach's Alpha: 0.797)									
Dress in accordance with religion								0.668	
Say "Shahada" before going to sleep								0.769	
Imitate the "Sunna" in consuming food and drinks								0.841	
All possessions are Halal (acquire properties in a religiously legal way)								0.804	
Spend wisely								0.743	
Ask God's pardon for wrong sayings or lies								0.526	
Recite some traditional prayers								0.602	

(Contd...)

Table 1: ***(Continued)***

Item	Component								
	1	2	3	4	5	6	7	8	9
	E	N	IB	PL	FP	FL	PG	Practice	Principal
Begin work in the name of God								0.744−0.769	
Perform prayers punctually[a]									
Religious principal (Cronbach's Alpha: 0.802)									
Should not take others' property without permission even those of close relationships									0.769
Do not gamble even for fun									0.859
Avoid sexual relationships out of marriage									0.804
Eigenvalue	4.272	1.088	6.167	1.397	3.125	1.180	3.151	5.815	1.230
Percentage of variance	15.822	4.031	38.542	8.733	31.246	11.798	52.510	36.343	7.687
Cumulative percentage	15.822	59.538	38.542	47.276	31.246	58.521	52.510	36.343	60.422

[a]Reversed-score items

analysis and t were reliable as the Cronbach Alpha values were well above 0.7.

4. CONCLUSION

This study sets out to determine the factors that contribute to individual indebtedness among young Muslims. The reliable factors extracted from the factor analysis are personality extraversion, personality neuroticism, lifestyle impulsive buying, purchasing for lifestyle, parental guidance, religious practice and religious principal. This study accomplished its objectives of identifying the factors that contribute to the level of individual indebtedness among the younger generation. All the factors enumerated should be given due attention to address the problem of high indebtedness levels. Individuals should exercise self -control to avert negative consequences arising from incurring too much debt and facing bankruptcy risks. In addition, they must take the initiative to resolve their debt problems.

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