



ADVANCED INTERNATIONAL JOURNAL OF
BANKING, ACCOUNTING AND FINANCE
(AIJBAF)
www.aijbaf.com



FACTORS INFLUENCING PERSONAL BANKRUPTCY AMONG YOUTH IN MALAYSIA

Suzana Hassan^{1*}, Muhamad Khodri Kholib Jati², Nurul Huda Md Yatim³, Mohd Azlan Abd Majid⁴

- ¹ Faculty of Business and Management, Universiti Teknologi MARA, Johor, Malaysia
Email: suzan218@uitm.edu.my
- ² Faculty of Business and Management, Universiti Teknologi MARA, Johor, Malaysia
Email: khodri338@uitm.edu.my
- ³ Faculty of Information Management, Universiti Teknologi MARA, Johor, Malaysia
Email: nurul082@uitm.edu.my
- ⁴ Faculty of Business and Management, Universiti Teknologi MARA, Rembau, Malaysia
Email: mohda164@uitm.edu.my
- * Corresponding Author

Article Info:

Article history:

Received date: 11.05.2021
Revised date: 16.05.2021
Accepted date: 23.05.2021
Published date: 15.06.2021

To cite this document:

Hassan, S., Jati, M. K. K., Md Yatim, N. H., & Abd Majid, M. A. (2021). Factors Influencing Personal Bankruptcy Among Youth in Malaysia. *Advanced International Journal of Banking, Accounting, and Finance*, 3 (7), 85-91.

DOI: 10.35631/AIJBAF.37007

This work is licensed under [CC BY 4.0](https://creativecommons.org/licenses/by/4.0/)



Abstract:

The objective of this paper is to explore the factors influencing personal bankruptcy among youth in Malaysia. This paper intended in creating more awareness and give more information to Malaysian about the importance of personal insolvency is due to the increasing of personal insolvency cases from year to year especially in 2016, 2017, and 2018 which involves 290,001, 300,958, and 303,415 cases. Some Malaysian have issues in financial literacy and it will lead to growth in personal bankruptcy cases if there is less initiative to avoid it. Other than that, the objectives of this paper are to discover whether a Non-Performing Loan, unemployment rate, and per capita income affect the bankruptcy cases in Malaysia. This paper using secondary data analysis using time series data yearly starting from 1985 until 2017 and it is consisting of thirty-three observations. The result showed Non-Performing Loan and per capita income are positively significant with personal bankruptcy while positively insignificant with the unemployment rate.

Keywords:

Personal Bankruptcy, Non-Performing Loan, Unemployment Rate, Per Capita Income

Introduction

Personal bankruptcy or personal insolvency is common case that happens in every country. Bankruptcy is forced to file when a person has too many debts and he cannot pay within the time given by the creditors. As stated in Chee, Ying, Chyi, Siang, & Leong (2015), there are top five countries in worldwide that contribute higher cases in insolvency which are United States, United Kingdom, France, Germany and Japan. Even though, Malaysia is excluded above but the insolvency cases become worse from year to year (Malaysian Department of Insolvency, 2016). In 2017, this department stated that a debtor is declared bankrupt, pursuant to an adjudication order made by the High Court against the debtor if he or she unable to pay the debts of at least RM30,000.

Besides that, at the end of 2013 stated Malaysian household debt to Gross Domestic Product (GDP) has risen to 86.6 percent compared to 2008 which is 60.4 percent and among household debt of Asian countries shows that South Korea 86 percent, Thailand 84 percent, Taiwan 82 percent, Singapore 72 percent, Hong Kong 62 percent, Philippine 35 percent, China 25 percent, Indonesia 16 percent and India 15 percent (Nizar & Abdul Karim, 2016).

According to Malaysian Department of Insolvency (2019) report, 60 people declare bankruptcy each day, most of them being young adults between the ages of 18 and 35 years old. That's why this paper need to be proceed further to carry out the determinants of personal bankruptcy. Based on past research stated that the unemployment rate become one of the reasons for personal bankruptcy cases are rising throughout of the year because when the individuals are not working there is no sources of income. When there are no sources of income, they cannot pay their debts on the agreed time with the creditors and that's why the personal bankruptcy cases are rising (Yew, 2017).

As one of the efforts taken by Bank Negara Malaysia to control the increasing household debt is by setting up a debt management agency. This effort is to help the borrowers in acquiring assistance and seek advice in managing their debts and finances. Other than that, Malaysians does not have enough knowledge in managing their financial literacy said (Murugiah, 2016). Therefore, this paper is intended to identify how the Non-Performing Loan (NPL), unemployment rate and per capita income affect the personal bankruptcy in Malaysia.

Literature Review

The researcher stated that personal bankruptcy at mostly countries become higher when there has a situation of economic shocks (Paul & Gripiaios, 2010). According to Hooi Cheng, Kok Wei, Rajagopalan, & Abdul Hamid (2014) some of Malaysians difficult to know which one become priority for them to buy things and this will lead to personal bankruptcy. Mostly Malaysians bankrupt because hire-purchase of vehicles, personal loans, housing loans and business loans (Siaw Mien & Said, 2018). Other than that, the researcher analyses there are many factors that contributed higher personal bankruptcy in Malaysia which are NPL, less information about money management and financial information too (Selvanathan, 2016).

Some studies of individual filers indicate that a persons's financial health affects his or her chances of going bankrupt (Congressional Budget Office, 2000). Besides, Non-Performing Loan (NPL) is defined as the sum of borrowed money upon which the debtor has not made the

scheduled payments for a specified period. (Hilmy, 2013). According to the Selvanathan, (2016), the borrower could not make any instalment payment within agreed period between borrower and creditor. Malaysian keep on make loans even though they realise that they do not have enough money to save until one day there is no money left to pay their debts on time. The total of personal bankruptcy due to NPL are 62,122 cases from year 2008 until 2012 (Malaysian Department of Insolvency, 2019) Most of previous researchers found that crucial reason for personal bankruptcy because of loans or instalment hire-purchase that lead to higher of NPL (Nizar & Abdul Karim, 2016).

Unemployment is defined the group of people who are jobless but they actively looking for the job opportunity out there. Besides that, unemployment in Spanish is significantly positive with personal insolvency because they are still maintaining their lifestyles standard even though they are unemployed person (Mohamad Azmin, Wan Zaidi, & Mohamad, 2019). According to Hilmy (2013), stated that default in payment happen because they are out of job and they will be having difficulty maintain in mortgage payment. When this issue happen continuously thus the personal insolvency cases will rise too. A high unemployment rate means that there is less income to gain, no salary and they will depend only on their emergency saving (Hammad Ahmad Khan, Abdullah, & Samsudin, 2016).

Different preview from other researcher stated that the there is a negatively relationship between unemployment rate and personal bankruptcy because the households will be increasing their loans when they are jobless to buy necessities to survive such as settle current debts, foods and beverages (Ma'in, 2016).

According to S.F.Ho., Mohd Yusof, & Mainal (2016), the lower income group are most likely contributing to rise in personal bankruptcy cases compare to high income group. The researcher stated that in United State of America give out the same opinion that the lower income group will lead to bankruptcy cases because they are burden with responsibility to pay their debts (Hilmy, 2013). Sometimes the consumers having issue of fluctuation income because of inflation rate or unemployment rate among them (Rahman & Masih, 2015). A person who declared bankrupt need to separate certain percentage from his monthly salary to pay his outstanding debts and they are now more likely in loans compare with savings (Selvanathan, 2016).

Other than that, people with fewer earnings, fewer assets, fewer investment and fewer fixed assets are tend to have financial problem that lead to bankruptcy among them and households that have many sources of income do not have any issue to pay their debts on time and they will take any opportunity to invest in many ways (Siaw Mien & Said, 2018). Besides that, the researcher stated that mostly the lower income group have higher debts which are cause from credit card debts and student debts. Malaysians really love to spend even though they know that items are very expensive (Abdul Adzis, 2017).

Proposed Framework

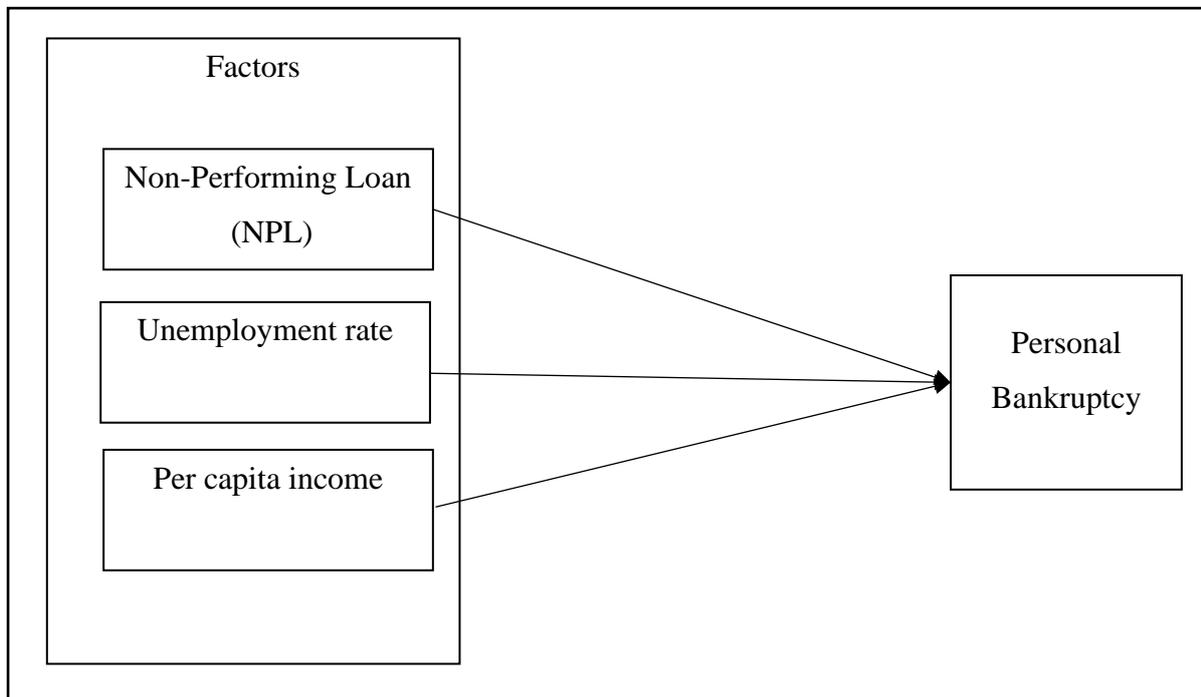


Figure 1: Framework for the Factors Personal Bankruptcy among youth in Malaysia

After considering all earlier empirical studies and literatures on the selected independent variables, figure 1 shows that there are three independent variables affect the dependent variable (personal bankruptcy) among youth in Malaysia. The three independent variables are Non-Performing Loan (NPL), unemployment rate, per capita income. This study has explored a set of different factors that influenced the personal bankruptcy by only focusing to young generation as compared to other study (Yew, 2017) that focused on the Malaysian household as a whole.

Research Methodology

The data were retrieved from Malaysian Department of Insolvency (MDI), The Global Economy and The World Bank Open Data. The software used to analyse the data is EViews which has the capability to perform analysis such as descriptive analysis and multiple regression analysis. As for multiple regression model, it is used in identifying the relationship between the dependent variable and independent variables. T-statistics and F-statistics are using in showing whether the means of two groups are statistically different from each other and significance of the regression model respectively. These will be 33 observations of the study over the period year 1985 to year 2017 by yearly.

Findings

Table 1: Descriptive Analysis

	Bankruptcy	Non Performing Loan (NPL)	Unemployment Rate (UR)	Per Capita Income (PCI)
Mean	11589.15	410904.5	3.990909	5360.606
Median	11685.00	916563.0	3.425000	4160.000
Maximum	22351.00	916563.0	8.261000	11010.00
Minimum	2142.000	124800.0	2.445000	1860.000
Standard Deviation	5944.587	252628.8	1.652554	3009.541
Observation	33	33	33	33

Table 1 shows the summary of personal bankruptcy with its determinants which are NPL, unemployment rate, and per capita income. The most outstanding standard deviation is NPL which is 252628.8 with the maximum value of 916563.0.

Table 2: Multiple Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob
C	6866.08	3738.67	1.8365	0.0773
NPL	0.00520	0.00124	4.1845	0.0003
PCI	1.41652	0.21277	6.6574	0.0000
UR	39.8760	176.505	0.2259	0.8230
R-square	= 0.965417			
Adjusted R-square	= 0.959013			
F-statistics	= 150.7478			

Table 2 indicates that personal bankruptcy is positively significant with NPL but positively insignificantly with UR. Meanwhile personal bankruptcy is positively significant with PCI as observed by Abdul Azis, (2017).

Discussion and Conclusion

The main function of this paper is to analyse whether the relationship between dependent variable and independent variable is positively significant or negatively significant. As mentioned before, the selected dependent variable is personal bankruptcy and independent variables are NPL, unemployment rate and per capita income.

The NPL showed positively significant with personal bankruptcy. This means that if the amount of NPL increases, the cases of personal bankruptcy will be rise too. The significant value of NPL is 0.0003 since the value is lower than 5 percent significant. This is showed positively significant between personal bankruptcy and NPL in agreement with (Selvanathan, 2016).

As the result showed positively significant because when the accumulated debts become higher, the people become hard to pay their bad debts within the agreed time and that's why the personal bankruptcy will be increasing too.

The per capita income revealed that it is positively significant with personal bankruptcy. This can be explained when the rise of per capita income, the personal bankruptcy is rise too. The significant value for PCI is 0.0000 since the value is below 5 percent significant level and it is showed that there is a significant relationship between personal bankruptcy and per capita income. As the result showed positively significant because Malaysians still must pay and to buy necessary things for them to survive even though their monthly income are less than their monthly expenses. This is resulted positively significant between personal bankruptcy and PCI as reported by (Abdul Adzis, 2017) and (Siaw Mien & Said, 2018). This is leads to a higher personal bankruptcy case in Malaysia.

The unemployment rate showed positively insignificant with personal bankruptcy. This means that if the unemployment rate increases, the personal bankruptcy will be increasing too. The result showed that the significant value of the unemployment rate is 0.8230 and it is more than 5 percent significant value. Therefore, there is an insignificant relationship between personal bankruptcy and unemployment rate. This is showed positively insignificant between personal bankruptcy and unemployment rate as stated in (Paul & Gripiaios, 2010).

Future Research

This paper can be used to forecast the main reason for personal bankruptcy that happens in Malaysia in the future. Especially the government can take many actions to reduce bankruptcy among Malaysians (Ma'in, 2016). Other than that, non-governmental organization (NGO)s like The Credit Counselling and Debt Management Agency (AKPK) is an agency set up by Bank Negara Malaysia in April 2006. This is the way for NGOs to help solvent individuals especially in manage their financial such as financial education, financial counselling, and debt management programme. They should be organized more programme to aware of this problem and to reduce the personal insolvency cases as soon as possible.

Additional, financial institutions or banking industries also take initiative in order to lower the issue of personal bankruptcy in Malaysia. For instance, the financial institutions or banking sector must give the loans for those who only have potential to pay back the loan by enforce the financial institutions or bank law (Hilmy, 2013).

References

- Adzis, A. A., Bakar, J. A., & Shahar, H. K. (2017). Factors influencing young adults' debt in Malaysia. *Journal of Business and Retail Management Research*, 12(1).
- Ahmad Khan, H. H., Abdullah, H., & Samsudin, S. (2016). Modelling the determinants of Malaysian household debt. *International Journal of Economics and Financial Issues*, 6(4), 1468-1473.
- Azmin, N. A. M., Zaidi, W. N. W., & Mohamad, Z. (2019). The Determinants that Influence Household Debt Case in Malaysia. *KnE Social Sciences*, 1215-1226.
- Bishop, P., & Gripiaios, P. (2010). Personal insolvency in England and Wales: A spatial analysis. *Urban Studies*, 47(8), 1687-1702.
- Catherine, S. F. H., Yusof, J. M., & Mainal, S. A. (2016). Household debt, macroeconomic fundamentals and household characteristics in Asian developed and developing countries. *Social Sciences (Pakistan)*, 11(18), 4358-4362.
- Cheng, E. H., Wei, K. K., Rajagopalan, U., & Hamid, B. A. (2014). Causality of personal bankruptcy in Malaysia. *Handbook on the Emerging Trends in Scientific Research*, 363-367.

- Congressional Budget Office. (2000). Personal Bankruptcy: A Literature Review. *CBO Paper*
- Hilmy, H., Mohd Z, S. A., & A Fahami, N. (2013). Factors affecting bankruptcy: The case of Malaysia. *International Journal of Undergraduates Studies*, 2(3), 4-8.
- Malaysian Department of Insolvency. (2016). Bankruptcy Cases 2016 in Malaysia. Statistics of Personal Bankruptcy 2016 in Malaysia. Retrieved from <http://www.mdi.gov.my/images/documents/Statistics/Bankruptcy/BRIEF NOTEKEBANKRAANDISEMBER2016.pdf>
- Malaysia Department of Insolvency. (2017). "Annual report", Bahagian Hal Ehwal Undang-Undang, Jabatan Perdana Menteri. Retrieved from www.bheuu.gov.my/portal/pdf
- Ma'in, M., Tajuddin, N. I., & Nathan, S. S. (2016). Household debt and macroeconomic variables in Malaysia. In *3rd International Conference on Business and Economics* (Vol. 3, pp. 21-3).
- Murugiah, L. (2016). Financial Literacy Determinants in Peninsular Malaysia. *Journal Business and Technology*, 2(2), 21-28.
- Nizar, N & Abdul Karim, Z. (2016). Determinants of Malaysia household debt: macroeconomic perspective. *Journal of Business and Economics*, 7(8), 1234.
- Ong, M. L., Cheang, W. C., Tsen, E. J. Y., Low, H. C., & Ng, H. S. (2015). *Factors of consumer bankruptcy: A case study in the United States* (Dissertation, UTAR).
- Rahman, S., & Masih, M. (2014). *Increasing household debts and its relation to GDP, interest rate and house price: Malaysia's perspective*. Retrieved from https://mpra.ub.uni-muenchen.de/62365/1/MPRA_paper_62365.pdf
- Selvanathan, M., Krisnan, U. D., & Wen, W. C. (2016). Factors effecting towards personal bankruptcy among residents: case study in Klang valley, Malaysia. *International Journal of Human Resource Studies*, 6(3), 98.
- Siaw Mien, T., & Said, R. (2018). A cross-sectional household analysis of household consumption patterns: An indirect approach to identify the possible factors of personal bankruptcy. *Jurnal Ekonomi Malaysia*, 52(3), 231-246.
- Tan, A. Y. (2017). *Factors of personal bankruptcy: a case study of Malaysia* (Masters degree dissertation, UTAR).