The Moderating Effects of Financial Literacy on Intention Towards Indebtedness Amongst Government Servants: A Proposed Framework

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ABSTRACT

This paper, which is conceptual in nature, discusses the moderating effects of the relationship between several factors that may affect the intention towards indebtedness among government servants. The proposed variables under examination are attitude towards indebtedness, lifestyle and religious obligations while financial literacy serveas a moderator variable. If validated, the work would be used as a reference to the government, policy makers, regulators practitioners and other stakeholder curbing the adverse of financial illiteracy in Malaysia.

Keywords: Indebtedness, Government Servants, Financial literacy

INTRODUCTION

Household indebtedness has been defined as the sum of money that is owed to borrowers to purchase house, personal use, securities, motor vehicles and credit cards. While, the Organization for Economic Cooperation and Development, OECD, defines household debt as the amount of liability to be paid or the payment of interest or principal made by the household to the beneficiary including for the future dates. Household indebtedness can make resource allocation more efficient and improve living standards by bringing forward consumption and investment [1, 2] Veritably, an increase in household debt might boost economic growth in the short term [3] Supposing proper households' behavior powered with financial literacy, available literature showed that 70% of adult in

South Asia including Malaysia are financially illiterate and scored the lowest in basic financial knowledge and skill [4-6]

According to [7] Amran *et al.* (2018), financial literacy level of Malaysians today is utterly low. Correspondingly, [8]Sawandi *et al.* (2018) also reported the similar on current level of financial knowledge among Malaysian that is still low to moderate. To these days, indebtedness among household particularly government servants' debt stood at RM236 billion [9] (Aziz *et al.,* 2018). In addition, 97% from 1.26 million government servants were indebted for consumption purposes such as personal financing, motor vehicles, credit cards and others. Indeed, financial literacy needed to empower a person to plan and manage financial matters by rigged with the right knowledge, skills and attitudes necessary to contribute for better and more informed financial decisions [5, 10-12]. At present, the National Strategy for Financial Literacy 2019-2023 by Bank Negara Malaysia and Securities Commission Malaysia is intended to elevate the financial literacy of Malaysians in order to improve their financial well-being (Malaysia National Strategy for Financial Literacy, 2019). Even though Malaysian economy continues to progress, current state of financial literacy of Malaysians has room for improvement[6, 13].

Prior researchers provided evidences on the studies conducted on the group who involved in indebtedness namely household[9, 13-21] , research in Malaysia is scant on this topic especially when it comes to intention towards indebtedness among government servants. Therefore, it is imperative to conduct a similar study in different group that is improve public services as well as enhance the efficiency of the broader economy [4, 22, 23]

The previous study conducted showed a positive relationship between attitude towards indebtedness [1-3, 10, 24-28](lifestyle (Harrison *et al*.,2015; Benthal *et al*.,2005; Watson, 2003) and religious obligation [7, 24, 26, 27, 29-32] on the intention towards debt in various jurisdictions such as China, Itali, England, New Zealand, Africa and others. It is equally noted that the researches on intention towards indebtedness among government servants were very slight in the Malaysia particularly in Northern states. Recently, Northern state recorded among highest for total number of people declared bankrupt. Among the few related studies conducted in Malaysia was done by [12, 33] on the factors contribute to individual indebtedness specifically among young Muslims. It is contrast as this paper adopted attitude towards indebtedness, lifestyle and religious obligation in the present study as independent variables to determine their relationship with the intention towards indebtedness among the government servants in the Malaysian Northern context. This is also in line with the recommendation by [2] on the need to improve the existing literature on the intention studies on the indebtedness among those who work in different states 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 proposed variables, theoretical framework and research methodology. The conclusion and discussions of the paper is provided in the final section.

LITERATURE REVIEW

Historical Evolution of Household Debt

Household debt evolved from 1960 to 2002, when the household debt boomed, the consumption to GDP ratios increased, imports of consumption goods rose, and the GDP experienced a temporary lift, and the GDP subsequently fell The years have been called the 'Consumer Age' [25, 34]. Reflecting to that, many scholars presume that the hike in

the household debt to the GDP ratio beyond a three to four-year period in a given country foresees a drop in ensuing economic expansion. Nonetheless, the opposite has happened where hikes in household debt have been related with low interest rate environments [35, 36]. Anciently, business spending using debt to finance expenditure as most relevant ingenuity. Prior to 1980s, the household wisdom with credit was majorly bounded to home mortgages and the finance of consumer durable, mainly cars. Nevertheless, modernisation in housing finance have extremely expanded the power of home owners to borrow at tax-subsidised interest rates for any kind of consumption via equity credit lines or cash out-refinancing. On top of that, was the evolution of household debt that culminated in 2007 as the evil twin where the outburst of household debt escorted the American spending explosion [18, 19, 29, 37-39]. Another important trend during this period was that, the consumption allocation hiked so hastily with a sluggish income rise over loads of the earnings dispersion amongst American households, who went on a lengthy borrowing line. Household debt relative to after-tax income hike to bizarre level. This was resulting financial vulnerability that led both both residential construction and broader measures of household spending to collapse, heading to the most relentless economic shrinkage in the U.S. since the Great Depression.

Beginning since an extraordinarily moderate household debt-to-GDP ratio of 17.9 per cent in 2008, Chinese households have been on taking end of a remarkably hike in credit, with household debt expanding to 46.8 per cent in 2017 (Mbaye, *et al.,* 2018). Mortgage lending has developed briskly as well, with mortgage payments increasing in 2015 from 3.6 per cent of the annual household income to 4.5 per cent in 2018. The Financial Times outlined that the bizarre nature of household debt phenomenon in China, the rapidity and size of China's debt hike in the past years has been about extensively without criterion. The low criterion that do appear are Japan in the the 1980s and the U. S. in the 1920s, which are not supporting examples[31, 35, 40] Thailand in Southeast Asia, has shown its household debt-to-GDP ratio ascend in 2008 from 52.4 per cent to 79 per cent in 2016. At the same time, ratio for Malaysia has boosted in 2008 from a lower than 50 per cent to nearly 70 per cent in 2016, and Singapore has also shown a notable rise in household debt, with a ratio of around 40 per cent ascending to almost 60 per cent in 2017. In these developing economies, boosted household debt has in most cases been the outcome of the grown access to universal in most countries in Southeast Asia (Hays, 2018).

An Overview of Household Debt in Malaysia

Upon these coming years, the household debt in Malaysia in form of percentage of the GDP presently is amongst the largest in the states of Asia where the GDP hiked to 89% twice the previous at 43%. Compositionally, gradual shift has been happened upon the times from credit spending against housing credit. Until today, the highest division of household debt in the banking system taken by the housing credit and its share has continually ascended in 1997 from 36% to 51% in second quarter of 2016. Look upon the expansions, the connections amongst household debt, income development and income disparity bring important assessment that would require the distinction amongst the categories of debt. For example, real sector growth gained the effect of housing debt on via housing-related consumption and investment, has an unintended control via the asset accumulation by households. This continued layer of control would change not only the positon of current balance sheet of households, but their coming movement in income and wealth relying on the movements of asset price. In vice versa, personal and passenger vehicle are the example of consumption credit that would help the current expenditure of the households in directly, with less control via asset accumulation.

Household in Malaysia in absolute term has primarily been on surging trend since 1997, and also elevated as a share of the GDP[11, 12, 20] Apparently, the increment that more than sevenfold in the level of household debt, making growth on a double-digit of 11% per year to hit the second quarter of 2016 amounted RM1.1 trillion. Likewise, 1997 faced doubled household debt amounted to 43% of the GDP to 89% of the GDP in the second quarter in 2016. Through the consistent endless surging in lending to the household sector, the total bank and non-bank lending amounted to more than 60% for household credit, exceeding the corporate credit since 2004. Numerous issues arise lead to the resolution by household in expanding their debt. A disclosure by Endut surge in Malaysian household debt was determined by three key point that lead which are devoting toward increasing domestic earnings by stabilised macroeconomic and economic growth, financial inclusion improved by the growth in financial sector and home ownership with housing market expansion benefited via government strategies.

Obviously, purchase of residential properties is the highest provider in development of Malaysian household debt, which amounts of 44% from household debt in overall, this is followed by another borrowing such as car and personal financing [32, 40] Debt of consumer and mortgage remains as dissection of household debt and it is essential for data analysis about factors within debt of household as the immensity of the factors observed may contrast. Nonetheless, Malaysia still had limited studies in the field related to debt composition. Although studies of household debt are crucial for cultivation of economy, debt of household that is huge, might be risky to economy unless linked with the income growth and productivity development since the debt might face greater default.

Empirical Evidence of Indebtedness Among Government Servants in Malaysia

Prominently, Malaysian government servants have been reported as a significant group facing debt problems by[21, 41] For real, February 2019 recorded Malaysian government servants' debt is accumulated by RM236 billion ([6, 37, 39] Recently, Bronhier (2014) revealed on individual financial issues with existed statistic due to overuse of credit card. Government servants also among the group that involved (Aziz *et al*. 2018). In addition, high percentage of car loans has also become the focal point in the mass media related to indebtedness among government servant. As a result, debt was argued as the cause of financial problems. Bedi (2018) also reported that financial well-being at dismal level that involved a survey on government servants. The survey by Debt Management and Counselling Agency (AKPK) also found that three out of 10 working adults had to borrow money to buy essential goods. Hardly suprising, 97% from 1.26 million government servants are in debt [10, 24]

Formerly, AKPK embarked on study of the financial behaviour and financial wellbeing of Malaysian Working Adults (MWAs) involved the government servants. Indeed, government employees form the highest percentage of borrowers of personal loans. Moreover, public servants are among the individuals who are the main target of promoting personal loans by banking institutions as they have fixed income each month and have the potential to repay the loan (Yahya & Muhammad, 2018). It is worrying as more than half of those about to retire are still servicing housing and car loans and almost 40% who aged more than 40 years are in debt[10, 24]

According to [40] when the government servants are unable to settle their huge debt or overspent outstanding credit card bills, monthly installments, loans, and other payments, they will end up bankrupt. Since 2011, many bankruptcy cases of government servant were reported. What is more, the total of government servant were reported bankrupt increase by double in 4 years until 2017 due to inability of them to serve their

debt [12, 20, 21]. bankruptcy is one of the sign of economic ill and one of the indicator for economic downfall**.** Due to this, more studies on government servants' indebtedness are very crucial and need to be investigated in order to prevent bankruptcy issues in future. Moreover, this issue can cause a great deal of conflict and stress to individuals and their families if they do not handle their financial matters appropriately.

An Overview of Financial Literacy in Malaysia

Prevailing circumstance in Malaysia exhibit that Malaysians have low confidence regarding their own financial knowledge where 1 over 3 Malaysians rate themselves to be of low financial knowledge (Malaysia National Strategy for Financial Literacy, 2019). In addition, 75% of Malaysians understand that inflation means that cost of living is rising, only 38% can relate the effect of inflation on their own purchasing power while low income households tend to have lower financial knowledge. Financial literacy is not a new issue and it has been an important argument among scholars especially during hard times of economic [31]. This is reflected to the recent studies involving financial literacy[42, 43] Generally, financial literacy designated as a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial well-being (OECD, 2018). According to past studies, Malaysians have an inferior level of confidence in their own financial knowledge where one (1) over three (3) Malaysians feel that they have low financial knowledge and more likely to handle current needs without prioritizing personal financial management.

Nowadays, financial literacy is vital for the emerging countries such as Malaysia where the governments intensely struggle to increase the financial happiness for the people The literacy reflected as tool to speed up financial happiness, henceforth, retaining financial literacy would support the households with the daily task and emergencies in financial, and also make them away from poverty (Financial EducatioThe necessity of financial capability where the financial markets in recent times propose more complex products and the obligation for financing and saving has moved from government, companies [11, 12, 17, 19, 22, 23, 41]

What is more, identified weaknesses on large number of people that unable to afford the unexpected expenses, amounted to 52 per cent admitting that they had difficulty raising RM1,000 during emergency and only 24 per cent of people were confident that they would meet their financial obligations for at least three months in case they lost their job [29, 37, 38] Aligned with the reality, Malaysian had come out with the National Strategy for Financial Literacy 2019-2023 to emphasize the financial literacy for the better society to brighter future for all Malaysians and not just focused on some groups only (AKPK, 2019). In addition, the National Strategy for financial literacy launched by Prime Minister Tun Dr Mahathir Mohamad outlines five main plans to equip Malaysians with the knowledge to make informed financial decisions and nurture healthy attitudes in financial management. Financially literate individuals make informed financial decisions throughout their life and lead to sustained improvements in their standard of living which in turn builds financial resilience and prevented the rise in cases of bankruptcy among working adults

Attitude towards indebtedness

Attitude towards the behavior refers to the individual's favorable or unfavorable evaluations of the behavior (Vallerand et al.,1992). Preceding studies by[1, 2, 16] attitudes toward credit card debt among urban household had discovered the significant relationship between attitude towards debt and household indebtedness. In fact, their study considered attitude as the key determinant of intention towards

indebtedness among households in Klang Valley context. Almenberg et al. (2019) measured attitude towards debt in terms of being uncomfortable with debt, parent, education, and risk taking and found positive relationship. Consequently, this paper comes up with the following proposition:

P1: Attitude towards indebtedness will influence intention towards indebtedness.

Lifestyle

Lifestyle is denoted as the way of living that represent individual routine within visualized it as the way individuals lived their life parallel to how they are perceived by their social group. Lifestyle may be positively related that influence intention towards indebtedness among individuals. Numerous studies have voiced that positive attitude towards debt has led to total debt escalation for individuals, especially holding on to the concept of "buy first, pay later" to maintain their social image, apart from fulfilling their needs [25-28, 30, 33, 43], as revealed Various prior researchers studied the impact of lifestyle towards the debts acquired by individuals). Therefore, this paper intends to determine how lifestyle will influence intention towards indebtedness among the government servants. Hence, the following proposition is developed.

P2: Lifestyle will influence intention towards indebtedness.

Religious Obligations

Meagre of studies have taken the religiosity aspects and its influence on people's attitude towards debt (Zainol *et al.* 2016). Prior studies expressed religious obligations among society, have a significant influence on individual behavior[6, 11, 31, 37, 38] particular, Islamic teaching discourages the excessive consumption of the debt though the real need for taking debt is allowed The Qur'an has very strong words condemning and prohibiting extravagance and prodigality: *"Eat and drink, but waste not by excess, for God love not the prodigals". (*7:31) and *"Squander not wastefully, surely the squanderers are the devil's brethren."* (17:26-27) (Al-Quran). Similarly, available evidence has shown that employees of firms located in more religious areas are likely to be more conservative and may make more prudent decisions Hence, the following proposition is developed.

P3: Religious obligations will influence intention towards indebtedness.

Financial Literacy as a Potential Moderator

Financial literacy is seen as a potential moderator because it could represent a possible solution for helping government servants to overcome challenges such as coping with indebtedness as voiced that financial literacy is a useful skill in the modern financial world that responsible in short-term and long-term financial decisions. Government servants who have financial issues of overuse of credit card, high percentage in car loans, had to borrow money to buy essential goods are expected to have high intention towards indebtedness. However, if they are having financial literacy, then it is likely that is their intention towards debt behaviour can be further improved. This argument is based on the fact that financial literacy can secure personal income and capable to make decision on expenditures. This moderator variable might change the government servants' debt intention from doing bad debt to good debt, which could in turn improve their financial decision and encourage a sound financial well-being. Additionally, many experts figure out the positive impact of financial literacy on access to credit, regardless of borrowing sources (Dang *et al.* 2019).

In addition, [3, 20, 26, 32] further stated that financial literacy imparts knowledge and skills that enable consumers such as government servants to make financial decision to improve their financial well-being and it is thus the best way for consumers like government servants to choose financial services and product that in the best of their interest disclosed that low financial literacy makes people not consider the legality of the lending entity, does not know how to calculate the loan amount and does not know the amount of the interest rate if they are late in paying the loan. In the context of this study, it is significant to use financial literacy as a moderating variable because the government servants behaviour could be efficiently changed from nasty behaviour to a better behavior regarding intention towards indebtedness. In this regard, the present study argues that financial literacy has a theoretical moderating influence and could thus enhance the intention when the financial literacy is taken into account.

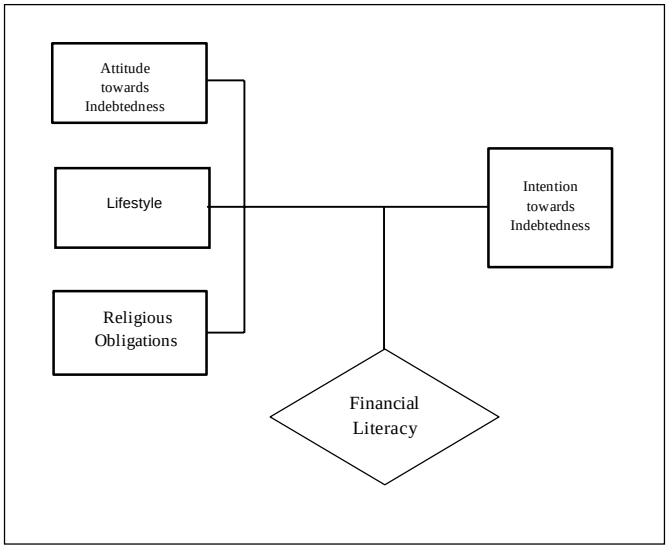
P5: Financial literacy moderates the relationship between attitudes towards indebtedness, lifestyle, religious obligations and intention towards indebtedness.

PROPOSED THEORETICAL FRAMEWORK AND RESEARCH METHODOLOGY

Based on the literature review discussed above, this paper proposed a theoretical framework (Figure 1) which depicts the relationship between attitude towards indebtedness, lifestyle and religious obligations (independent variables) and the intention towards indebtedness among government servants (dependent variable). Similarly, the diagram also depicts the moderating effects of financial literacy on the relationship between independent variables and dependent variable.

This paper employed theory of reasoned action (TRA) and theory of planned behaviour (TPB) as the underlying theories to understand the government servants' intention towards indebtedness in Malaysia. This is in line with the recommendation of[1, 7, 10, 24] that TRA and TPB are made open for inclusion of any predictor variable that can explain human behaviour (Vallerand et al., 1992). This paper will adopt a quantitative approach to study the relationship, and the survey method of data collection will be adopted using a structured questionnaire since the nature of this study is cross-sectional.

Figure 1: Research framework diagram



CONCLUSION

This paper has proposed the relationship between attitude towards indebtedness, lifestyle, religious obligations and intention towards indebtedness among government servants in Malaysia. Similarly, the moderating effects of financial literacy on the relationship mentioned above will be examined. If the proposed hypotheses are validated, the finding may assist the government, policy makers, regulators and practitioners in Malaysia for one of the remedies to the indebtedness experienced by the Malaysian due to the high level of financial illiteracy.

The findings will offer empirical evidence and justify the previously conducted studies on the relationship between attitude towards indebtedness, lifestyle, religious obligations and intention towards indebtedness among government servants in Malaysia. The study will also provide a new dimension to the existing literature on the moderating effect of financial literacy on the relationship among variables. This is in line with the recommendation of that TRA and TPB are made open for inclusion of any predictor variable that can explain human Similarly, the framework when validated may add to the existing literature on the practical application of the TRA and TPB as they serve as the underlying theories for this paper.

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