DIFFERENCES IN FINANCIAL INFORMATION AND FINANCIAL STATUS AMONG MALAYSIAN BANKRUPTS

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ABSTRACT

Increasing bankruptcy cases among individuals has led to a need for a study done on the bankrupts and their financial affairs. Managing finances well will most probably result in a good financial status. This paper reveals the profile of bankrupts, sources of bankruptcy, types of loans leading to bankruptcy and the financial status of individuals before bankruptcy. A total of 299 bankrupts registered with the Department of Insolvency situated in four big cities in Malaysia responded to self-administered questionnaires distributed by liason officers in those departments. The research shows that the main source of bankruptcy was the inability of individuals to manage their finances well. Other reasons include individuals spending more than their income and failure in business. It was discovered that vehicle loan was found to be the first ranked type of loan leading to their bankruptcy while business loan was ranked second and, personal loan and being a guarantor shared the third rank. Almost half of the individuals in the survey did not attend any financial education prior to their loan approval. Only a quarter of them learnt financial management through their own reading or information from the mass media. The financial status before bankruptcy in general was at an average score. It is therefore suggested that individuals applying for a loan should be equipped with adequate financial education before they are granted the loan. Furthermore, most of the respondents also agreed to the suggestion of attending a financial education program prior to the loan approval. It is hoped that this could be a method to curb individuals from experiencing low financial status after receiving the loan due to financial mismanagement which may result in bankruptcy. The study also suggests that a financial program that would facilitate their bankruptcy release would also be needed.

INTRODUCTION

The increase in cost of living as reflected by the increase in household spending among Malaysian households was at an increment of 12.1% as compared to the previous year (Department of Statistics 2010). In conjuction to that, wise planning for their expenses is crucial as desirabilty to spend excessively leads to inadequacy of income. Ranging from year 2007 to 2014, a total of 33,570 individuals had been declared bankrupt in Malaysia. Whilst statistics on bankruptcy showed the main cause for bankruptcy was due to vehicle loans (26.5%) followed by housing loans, personal loans and business loans (Malaysia Department of Insolvency 2014).

Consequences for bankruptcy would jeopardize the well-being of the bankrupt. Among all, bankrupt will be denied their legal rights where bank accounts will be frozen and losing control on their own assets and properties. Young adults were also facing critical situations regarding debt with half of the bankrupts are among those below 44 years old (Malaysia Department of Insolvency 2012). There are increasing default payments, credit card debt and bankruptcy cases among young individuals in Malaysia (Leila, Fazli & Laili 2012). Increasing bankruptcy cases among individuals reflected that there is a need to study the bankrupts and their financial affairs. The study also needs to explore the sources for the bankruptcy. Mismanagement of their finances may be the reason hence managing finances well will most probably result in a good financial status. This paper revealed the profile of bankrupts, sources of bankruptcy, type of loan leading to bankruptcy, their financial status before bankruptcy and the financial status based on back-ground including suggestions to handle bankruptcy.

LITERATURE REVIEW

Inability to control the finances among individuals would result in inequilibrium of the source of money and the demand of the expenses will create various financial problems (Dowling, Corney & Hoiles 2009). This in turn will contribute to the low financial status and satisfaction due to the overexpenses. In view of this, there is a need to manage financial matters well. A financially literate individual is an individual who possesses

knowledge and necessary skills to handle financial challenges and to make wiseful decision related to money matters (Sohn, Joo, Grable, Lee & Kim 2012). The positive behaviour in financial aspects such as doing financial planning and budgeting are the main components in achieving financial satisfaction (Xiao, Tang & Shim 2009). Hence, the capability in managing financial resources effectively is important for financial well-being.

Past research on financial literacy and financial capacity revealed that these are directly related to personal bankruptcy (Huhmann & McQuitty 2009). Decision on financial products may be wrongly made as costs and benefits offered in various financial products may not be easily understood by illiterate individual. Due to this, financial problems may arise in dealing with their financial matters. As contended by Gudmunson and Danes (2011), family especially parents were the main reference for children in understanding personal financial management. Furthermore, high level of financial management individual was more likely to involve in positive financial management outcome such as high savers and less borrowing. In contrast, individual will more likely saves less and involved in high borrowing for those who were having low level of financial management. High borrowing may to the extent being trapped in indebtness and facing difficulty in debt repayment. As opined by Brown and Taylor (2008), household with high debt ratios are probably having a negative net-worth which may end-up with bankruptcy filing in a short period of time.

Young consumers are accustomed to debt and easy availability of credit resulted in high rates of financial debt and credit card (Lachance, Beaudoin & Robitaille 2006). This is supported by Jorensen and Savla (2013) who contended that lack of financial knowledge among the youngsters can affect the adolescent's ability to make positive decision regarding financial matters in their life. Furthermore, Scheresberg (2013) found that young people lack basic knowledge on finances and only one third of the respondents had basic knowledge regarding interest rate, inflation and various risks. Thus, youngsters reported high rates of financial difficulties and dissatisfaction (Roberts & Jones 2001) and the low level of financial knowledge resulted in weak financial management.

RESEARCH METHODOLOGY

A cross-sectional survey was performed on Malaysian bankrupts who registered with the Department of Insolvency. Four big cities in Malaysia were randomly selected from thirteen cities namely Ipoh, Johor Bharu, Putrajaya and Shah Alam. The selection of big cities was due to various financial activities performed and high population. Each of the Department of Insolvency in the selected cities was contacted to seek for cooperation in this study. A total of 299 bankrupts responded to self-administered questionnaires distributed by liason officers in those departments. Prior to the data collection, permission were granted from the Malaysia Department of Insolvency situated in the four selected cities. Information on the back-ground of the respondents and on the financial matters before and after the bankruptcy was gathered. The financial status before bankruptcy with seven items was adapted from the Malaysian Personal Financial Well-being Scale developed by Garman and Jariah (Jariah 2007). A list of suggestions to overcome bankruptcy was listed for the respondents to response. Descriptive statistics and independent sample t-test were used to explain the primary data and the measurement for financial status was found reliable through the statistics obtained which has a Cronbach alpha of 0.869.

RESULTS AND DISCUSSION

Profile of Respondents

The profile of bankrupts obtained from the analysis of the data collected is shown in Table 1. Male respondents are slightly more than women and almost three quarter of them are married as compared to those unmarried which consists of only 15 percent of the respondents. Being a bankrupt while married, gives more pressure for them in managing their family finances. Furthermore, there are restrictions for them in having bank accounts or doing a business of their own to generate income. Almost two-third of them attained certificate for their highest level of education and this shows that majority of them started working after leaving school. In terms of the income before they are declared bankrupt, majority obtained an individual income between RM1,501 and RM3,000.

TABLE 1. PROFILE OF RESPONDENTS

Profile of Respondents		Percentage (%) (N = 299)
Gender	Male	57.6
	Female	42.4
Marital Status	Single	14.9

	Married	71.6
	Widow	2.4
	Divorced	11.2
Education	School Certificate	63.4
	Graduate	33.9
	Postgraduate	2.7
Age (years old)	20 to 29	8.9
Mean age 43	30 to 39	28.6
Minimum 23	40 to 49	36.4
Maximum 75	50 to 59	18.9
	60 to 69	6.1
	70 to 79	1.1
Age declared bankrupt	20 to 29	17.6
(years old)	30 to 39	41.2
Mean age 38	40 to 49	28.2
Minimum 20	50 to 59	9.5
Maximum 68	60 to 69	3.4
Duration of bankruptcy period (years)	0 to 5	70.6
Mean 4	6 to 10	17.6
Minimum 0	11 to 15	6.7
Maximum 34	16 to 20	3.1
	21 to 25	0.4
	26 to 30	0.8
	31 to 35	0.8
Monthly Income Before Bankruptcy (RM)	≤ RM1,500	29.7
Mean 3,407 (USD1,000)	RM1,501 - RM3,000	42.1
Minimum 500	RM3,001 - RM4,500	10.9
Maximum 50,000	RM4,501 - RM6,000	7.1
	RM6,001 - RM7,500	1.1
	> RM7,500	9.0

Majority of them were declared bankrupt during the middle age of 40 to 49 years old. However, more than half of them were declared bankrupt below the age of 40 years old. This revealed that majority of them were bankrupt at a younger age. Most of them are in bankruptcy for less than five years with an average of four years living in bankruptcy. This result is in parallel with Roberts and Jones (2001) where youngsters reported high rates of financial difficulties and dissatisfaction. Furthermore, slightly more ten percent of the respondents have experienced bankruptcy for more than ten years with one respondent reaching to 34 years of bankruptcy. According to the Department of Insolvency, being in bankrupt for more than five years is one of the criteria that must be fulfilled before applying to be released from bankruptcy.

Sources of Bankruptcy

The sources of bankruptcy are shown in Table 2 where the respondents can choose more than one source. The main source of bankruptcy was inability to manage finances well followed by spending more than income and failure in business. Not being able to manage their finances well can be referred to as either in managing their income so that they are able to make loan repayments, or in managing the cash loan received. Taking a large amount of loan especially for cash loan requires a person to manage well the cash received upon the loan approval. Being a loan guarantor for their friends or relatives taking the loan was found as the fourth source of bankruptcy. Even though these people did not take the loan for themselves, they have to bear the consequences of the default payment made by others.

TABLE 2. SOURCES OF BANKRUPTCY

Sources of Bankruptcy	Yes (%)
Failed to manage finances well	35.8
Income is less than expenses	28.0
Divorced	8.1
Family problems	10.1
Health problems	4.1
Business failure	22.0

Job loss	8.8
Spending excessively	5.7
Being a loan guarantor	17.8

Type of Loan Leading to Bankruptcy

The respondents were asked the type of loan that leads to their bankruptcy and the results is shown in Table 3. Vehicle loan was found to be the first ranked type of loan leading to their bankruptcy while business loan was ranked second and, personal loan and being guarantor shared the third rank. As compared to personal loan, vehicle loan is a secured loan by having the vehicle to guarantee the loan. Inability to make the loan payments would result in repossession of the vehicle and a large amount of the loan could have been settled. For Malaysia, individual having debts above RM30,000 can be declared bankrupt by a court rule. Individuals should have act faster to avoid repossession of the vehicle. Statistics on bankruptcy from 2007 to March 2012 showed that 10,203 cases from 85,175 bankruptcy cases involved businessman (Malaysia Department of Insolvency 2012). Most of them were declared bankrupt due to their business loan when their business failed.

TABLE 3. TYPE OF LOAN LEADING TO BANKRUPTCY

Type of loan leading to bankruptcy	Yes (%)
Personal loan	17.8
Education loan	1.7
Credit card	16.5
Business loan	18.9
Vehicle loan	26.6
Housing loan	15.2
Loan guarantor	17.8

Apart from that, credit card debt as the type of loan leading to bankruptcy also appeared to be not far from the other loans, so as housing loan. Credit cards are widely promoted to the individuals especially to young workers. Spending on credit card makes life easier however individuals might not be able to make repayments for the excessive spending. On the other hand, housing loan being a secured loan would have the house itself as the asset to guarantee the loan. Nevertheless, individuals still faced the inability to pay the monthly payment of the housing debts.

Financial Education

Table 4 revealed the information on whether the respondents attend any financial education course or obtained any kind of financial education before there are approved a loan. It was found that almost half of them did not attend any financial education prior to their loan approval and only few of them followed a financial education course. About only a quarter of them learnt personal financial management through their own reading or through the mass media. Less than one-fifth of them stated that they learnt financial management from friends. School, parents, relatives and neighbor do not seem to help much in obtaining the knowledge to manage their financial matters. The results reflected that almost half of the respondents or bankrupts received the loans without having the necessary skills in managing the money. Referring to the results in Table 2, slightly more than one third of them stated that they failed to manage the finances well. Hence, these loan recipients are not ready with the necessary skills upon receiving the loans which have led them to bankruptcy.

TABLE 4. FINANCIAL EDUCATION BEFORE BANKRUPTCY

Source of financial education before bankruptcy	Yes (%)
Never	46.5
Financial education course	3.4
School	8.8
Friend	16.5
Parents	7.4
Neighbour	1.3
Relatives	4.0
Mass media	24.2
Reading	26.9

Financial Status before Bankruptcy

Table 5 shows the financial status before the respondents were declared bankrupt. Higher score means that the financial status is better. In general, the financial status was slightly above the middle score of 21 and was concluded as having a moderate financial status before the bankruptcy. This reflected that they were already not experiencing a good financial well-being prior to their bankruptcy.

In detail, before the bankruptcy the respondents were slightly below the middle score of 3 for the ease to obtain RM1,000 for emergencies and in terms of frequently spending all the money in a short time. This revealed that there are less prepared to face financial emergencies such as if the car broke-down. It also showed that they have not allocated certain amount of money for all their financial needs. In short, they did not plan for their expenses. By doing a budgeting and adhere to it, all the money won't be spend before another source of money is available.

Even though they responded that they will more probably have enough money for tomorrow, have control on their financial behavior and were confident that they know how to manage their money, they were still worried about their financial situation. This is in line with the result from Table 2 which found that slightly more than one third of them failed to manage their finances well.

TABLE 5. FINANCIAL STATUS BEFORE BANKRUPTCY

Financial status before bankruptcy	Mean (Scale 1 to 5)
Before declared as a bankrupt, to what extend are you confident that you have enough money for tomorrow?	3.31
Before declared as a bankrupt, to what extend are you confident that you have control on your financial behavior?	3.28
Before declared as a bankrupt, to what extend are you confident that you know how to manage your money?	3.33
Before declared as a bankrupt, how easy for you to obtain RM1,000 for emergencies?	2.95
Before declared as a bankrupt, how often have you spend all your money before getting any more money later?	2.92
Before declared as a bankrupt, how often do you quarrel with others with regard to your financial matters?	3.42
Before declared as a bankrupt, to what extend do you worry about your financial situation?	2.83
Overall mean score (Range 7 to 35)	22.31

Financial Status based on Respondents'Back-ground

The differences in financial status of the respondents before they were declared bankrupt are shown in Table 6. Even though the financial status of the respondents prior to their bankruptcy in general was moderate, differences based on their back-ground were identified. Older respondents were found to be slightly financially better than younger respondents however the difference was not significant. The financial status for male respondents was better than the female and was significantly different. In terms of education back-ground, respondents who were graduates were also found to have a better financial status as compared to non-graduates. With higher education level, the financial status before being a bankrupt was better. Thus, financial status was found to be significantly different based on gender and education.

TABLE 6. FINANCIAL STATUS BASED ON RESPONDENTS'BACK-GROUND

Back-ground	Categories (n)	Mean for Financial Status (Range score 7 to 35)	t (sig. p)
Age	Below 40 years old (147)	21.9048	-0.783 (0.435)
	40 years and above (98)	22.5102	
Gender	Male (155)	23.1226	3.198** (0.002)
	Female(117)	20.8205	
Education	Non-graduate (167)	21.3293	-2.675** (0.008)
	Graduate (102)	23.3529	

Suggestions to Handle Bankruptcy

The respondents were asked to respond to the suggestions listed in Table 7. Most of the respondents agreed to the suggestions made on how to handle bankruptcy however the lowest agreement was on the suggestion related to fixing three years as the probation period after an individual is released from bankruptcy before they can be granted a loan. They least agreed on this suggestion as they have to wait for another three years before applying for loan as compared to being able to apply loans immediately after releasing from the bankrupt status. This suggestion will most probably constraint them from doing big business instantaneously.

They highly agreed to the suggestion on having a financial program for the individual bankrupt to assist them in getting a release from the bankruptcy. This will most probably helped to reduce the period of being in bankruptcy. Making it compulsory for a loan applicant to have attended financial education program prior to the loan approval was agreed as the second last lowest. Though this suggestion was not among the highest agreed, nevertheless it was still agreed by most of the respondents. They may realize the need of being trained to manage money before handling the large amount of money from the loan received.

TABLE 7. SUGGESTIONS TO HANDLE BANKRUPTCY

Suggestions	Yes (%)
I agree that the government should make it compulsory for loan applicant to attend a course or training related to finances before the loan being approved.	90.4
I agree that a financial program should be prepared for the individual bankrupt to assist them in getting a release from bankruptcy.	97.3
I agree that a special bank account for individual bankrupt with a local bank should be set-up to facilitate the monitoring of their debt repayment.	93.9
I agree that a training and financial course should be introduced to assist a bankrupt to obtain a second chance.	93.8
I agree that the bankruptcy period is limited to only two years to those having good financial record with the Malaysia Department of Insolvency.	95.2
I agree that three years after an individual is released from bankruptcy is fixed as the probation period before they can be granted a loan.	85.2
I agree that a short period should be imposed on bankrupt that are guarantor to loan recipient.	96.2

Regarding the suggestion involving loan guarantor, this suggestion was agreed as the second highest. A loan guarantor did not really receive the loan, so they shoudn't be pinnalized the same as the loan recipient. Hence, for this suggestion, the respondents agreed that a loan guarantor should be imposed a shorter period on bankrupt. Most of the respondents further agreed that the bankruptcy period is limited to only two years as compared to five years for the current one.

CONCLUSION AND IMPLICATION

This article which focused on the bankrupts in Malaysia registered with the Department of Insolvency revealed inability to manage finances well as the main source of bankruptcy. In conjunction with that, as mentioned by them, many did not attend any financial education prior to their loan approval while not many of them only learnt financial management through own reading or mass media. Furthermore, they were in general having a moderate financial status before declared bankruptcy. Being a male and a graduate would result in having a better financial status before being bankrupt.

Vehicle loan, business loan and personal loan were among the loans that are most potential in leading to their bankruptcy. Hence, providing financial education for loan applicants before they are granted the loan should be a necessary step. Furthermore, most of them agreed that the government should have made compulsory for loan applicants to attend financial education program. This is to curb from experiencing low financial status after receiving the loan due to financial mismanagement which may result in bankruptcy. Hence, the government should impose the requirement to attend a financial education program for loan applicants. A financial program that would facilitate their bankruptcy release would also be needed.

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