

EXPLORING FACTORS THAT AFFECT DEBTS AMONG GENERATION Y IN MALAYSIA: AN ISLAMIC PERSPECTIVE

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ABSTRACT

This study aims to explore factors that affects debts among generation Y in Malaysia based on Islamic perspective. This paper is a conceptual paper derived from journal articles, proceedings, and online news which are related to the research area under discussion. Personal financial practices is an important element in preventing people, especially young generation in Malaysia, from having excessive debt which could lead to financial insolvency. In addition, consumer spending based on Islamic perspective also will be discussed as a reference for debtors. The issues encountered on personal financial practices are excessive spending of material possessions and lack of knowledge on spending. Furthermore, additional research should be done to uncover issues pertaining to debt for both empirical and non-empirical study.

Keywords: personal financial practices; materialism; financial literacy; Islamic consumer spending

1.0 Introduction

Nowadays, the issue on bankruptcy is a new phenomenon in Malaysia and the increasing number of bankruptcy cases come from the Generation Y. (Ansar et al., 2019). Based on Malaysia Department of Insolvency (2019), from 2015 until 2019, a total of 21,358 bankruptcy cases involved those aged 25-34 years old, while 486 bankruptcy cases under age below 25 years old were reported in Malaysia. These declared bankrupts are the Generation Y and triggers concern over Malaysia's future generation's spending habits.

In addition, the report also stated that Selangor has one the highest bankruptcy cases (72,935), while Wilayah Persekutuan (47,040) and Johor Bahru (41,853). (Malaysia Department of Insolvency, 2019) This statistic indicates that the generation Y from urban areas are more involved in debt due to materialism, socio-economic background and living lifestyle as compared to those generation Y from rural areas.

The factors of bankruptcy in Malaysia from the year 2015 until December 2019 are personal loan (32.07%), followed by car loan (21.53%) and housing loan (12.57%) (Malaysia Department of Insolvency, 2019). To add to this, the New Straits Times dated 17 October 2019 reported that most bankruptcy cases in Malaysia show the number of male doubled the number of female

bankruptcies with 56,173 versus the 24,452. Based on races, Malay shows the highest number of cases, with 47,562 or 56 per cent, followed by the Chinese at 21,947 (26%); Indians at 9,480 (11%); and others at 5,816 (7%). Minister in the Prime Minister's Department, stated most of the bankruptcy cases among youth in Malaysia influenced by the latest trends which leads them to overspending and fall into bankruptcy.

Hence, the main reason for overspending is due to lack awareness amongst Generation Y on prudent spending and managing personal finance that has led to high bankruptcy cases in Malaysia. Thus, it is important to address this problem at the earliest stage so that we can raise awareness of bankruptcy to our youths especially students in higher education institutions. The Insolvency Department as well as via Bank Negara's Credit Counselling and Management Agency (AKPK) can play a role in conducting awareness programmes to the students. Hopefully, the awareness programmes can overcome the financial problems faced by Generation Y and minimize the bankruptcy cases among Generation Y in Malaysia.

2.0 Debt in Islam

According to Islam, the meaning of debt could be viewed from numerous perspective. Maliki and Hanafis scholars' defined debt as a valuable property and special contract involved between the debtor and creditor. In certain duration the debt should be repaid in the equivalent values as stipulated in the contract. Iman Shafie and Iman Hanbali also stated that debt is transferring the use of property to others and borrower promise to return it. (Zuhaily, 2002). Besides, Haqqi (2009), defines debt a contract of loan where person borrows certain money or property and promises to return an equal quantity in the same condition as before. In addition, Sulaiman (2009) claimed that concept of ta'awun (mutual cooperation) exist between the borrower and lender as the main feature of the practice of borrowing in Islam.

There is a saying in the Holy Quran that *"Who is there among you who will lend to Allah a good loan that He may return it after multiplying it manifold? Allah alone can decrease and increase (wealth) and to Him you shall all return"* (Surah Al-Baqarah 1:245). This verse stated that Islam encourage debt for the needy people to fulfill their necessities. Nevertheless, the loan must be without any personal gain or interest to the borrower that will burden him in the future. (Maududi, 1972).

Generally, people involve in debt to fulfil their basic needs such as purchases of houses, furniture, vehicle and others. However, the amount of debt must be proportional to the income which the person has sufficient money after paying the debt (Sulaiman, 2009). Nevertheless, financing for luxury spending is not encouraged in Islam practices (Othman and Sipon, 2014). If debt become a habit, it could lead to harmful consequences such as anxieties, hardship, and will affect the family institutions. Hence, debt is forbidden under these circumstances. (Sulaiman, 2009).

3.0 Spending based from Islamic perspective

As stated earlier, the Malay shows the highest number of cases compared to other races. Thus, it is important to discuss on spending based on Islamic perspective. Zainol et al (2016) observed the concept of debt in Islam from the perspective of the objectives of the Shariah through interview with selected Shariah experts. The findings revealed that, the need of debt is different according to specific circumstances. Based on the teaching of the holy Quran and the Sunnah, Imam Al-Shatibi scholar has categorized one's need into three categories which are daruriyyat (essentials), hajiyyat (supporting) and tahsiniyyat (embellishment) (Hamid 2009; Khan and Ghifari 1992). According to Islam, necessities refer to the important needs and preservation of the five foundations of good individual and social life. Additionally, Imam al-Ghazali, has classified daruriyyat into five categories a) al-iman (faith), (b) al-nafs (life), (c) al-ma'al (wealth), (d) al-aqal (intellect) and (e) al-nasal (offspring). (Hamid 2009; Khan and Ghifari 1992). In certain circumstances, debt can be incurred by Muslim in order to fulfill these necessities such as house, cloths, food and others. Muslim must identify the priority of their needs especially young generation and need to understand their level of financial position in choosing their lifestyle.

The second category is convenience (Hajiyyah) or known as complimentary benefits. Its refers to the benefit that are less important than the five foundations in maqasid syariah, but they seek to remove severity and hardship of their life. (Khan & Ghifari, 1992). For instance, due to the financial problems, young generation have to apply study loan such as from PTPTN and after graduated they have to pay back the loan amount as stated at in the agreement. In Islam, debt are allowed for this situation, however the person must fulfill their promise as agreed between both parties.

Last but not least, the third category is refinement (Tahsaniyah) which refers goods and services beyond limits of convenience. For example, spending for an expensive car that becomes a trend among young generations after graduation. These circumstances are not allowed in Islam practices because it is considered as luxury items and with high expenses they are not able to pay and lead bankruptcies in the future. Generally, Islam practices are allow a person to have debt for the purpose of complementary benefits (hajiyyat) and embellishment (tahsiniyyat) is not encouraged (Zainol et al 2016). Therefore, Muslim should be wise taking up debt to avoid any harm to their future.

4.0 Factors that affect debts among Generation Y in Malaysia

1. Excessively spending with material possessions

Malaysia Department of Insolvency (2019) reported that a total of 21,844 bankruptcy cases involved those age below 34 years old which is categorized under generation Y. Usually, this generations are influenced to buy products behavior through social media (Aksoy et al , 2013). This is contrary to the older generation who are not excessive in spending for material possessions. (Albeerdy and Gharleghi, 2015). Richins and Dawson (1992) defined materialists as individuals who are always spending for unnecessary purchase. Moreover, studies by Pinto et al. (2000) observed that material possession such as credit card shows young generation have higher on materialism and had more positive attitudes toward spending. Therefore, individuals who are prone to spend on materialistic items tend to have financial worries due to high debt and will affect their financial well-being in the future.

2. Lack of knowledge on spending

A research done by Azer and Mohamad (2018) of students at local university located in East Malaysia highlighted that students are attracted to buy things on sale and not fully utilize these things. This indicate that students spending without any proper plan of list of items to buy and waste them. In addition, the findings also stated that students' expenses are greater than income and they didn't have any knowledge to cut down their spending. Students need to acquire knowledge to manage their spending because they have less financial management practices (Komal et al, 2017). Moreover, Mien and Thao (2015) also suggested that students should set aside some amount of money for saving and prioritize their spending Therefore, with proper finance management practice, generation Y can be able to improve their spending habit and make a good financial decision and plan for their future financial freedom.

5.0 Conclusion

This paper addressed current scenario bankruptcy cases in Malaysia and factors that effects debt among generation Y. In Islamic perspective, debt is to help each other as stipulated in the mutual cooperation among parties involved especially to the generation Y who are at an early stage to builds their career and future. However, there are certain condition to be fulfilled when dealing with debt transactions First, debt must be free from usury and contract should be based on the Shariah principles such as written documentation and presence of witness. Second, spending for daruriyyat (essentials) needs, know the priorities and not spending for luxury items. Generation Y should live in moderate lifestyle and know their own ability and capacity to pay back their debts. Generation Y must make sure debt taken is not excessive and they should have good financial planning in managing their debt.

In a nutshell, the Malaysian government should improve financial education system by introducing 'Financial Planning' as a subject in schools. Students should have better understanding on debts, concept of budgeting and skills in money management. Additionally, Credit Counselling and Management Agency (AKPK) can organize awareness programmes about bankruptcy to youth especially students in the higher education institutions and spread information through mass communication such as television, radio, print media and social media.

In the same manner, parents can also instill good financial habits to their children at an early age. Last but not least, future researchers should expand—other related factors such as the effect of awareness campaign and effectiveness of financial subject to the students

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