PERSONAL BANKRUPTCY AMONG THE RESIDENTS IN KLANG VALLEY

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Abstract- In Malaysia, there is a notable increase in the number of bankruptcy cases. The personal bankruptcy trend has become one of the major concern to the government. The purpose of this research is to study the factors lead to the increase in personal bankruptcy. This paper establishes a generalized research framework and research methodology to investigate the relationship among the variables of the study. The research proposal mainly argue on few major factors of personal bankruptcy, which are the credit card debts, money management, financial literacy, and non-performing loan. The previous studies done by different researchers are used as references on explaining and supporting the points of view. This paper does not includes all the possible factors towards personal bankruptcy, rather it is only focus on few selected factors. The study on personal bankruptcy is crucial in assisting the government and society to curb the issue and prevent the problem from getting severe.

Keywords- Bankruptcy, credit card debts, money management, financial literacy, and non-performing loan

I. INTRODUCTION

In Malaysia, the personal bankruptcy trend has become one of the major concern to the government. According to Malaysia Department of Insolvency, there is a total of 86,944 individuals had been declared bankrupt from year 2008 to 2012. Refer to Table 1, most of the bankrupts are under the age group of 35 to 44 years old, which are 34.51% or 30,006 cases out of the total cases of 86,944. Moreover, bankrupts who above the age of 55 years old showed the most significant rise among all the age group, which has an increase of 159.5% from 963 cases in 2008 to 2,499 cases in 2012.

In addition, Malaysia Department of Insolvency indicates that the rise of personal bankruptcy cases is corresponding to the increase in non-performing loan. According to the IMF's Compilation Guide on Financial Soundness Indicators 2004, a loan will be regarded as non-performing when the payments of principal or interest are overdue by 90 days or more (Adriaan & Russel, 2005).

Table 1: The number of bankruptcies based on age group from 2008 to 2012

<table>
<thead>
<tr>
<th>Age Group</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Total</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 25 years old</td>
<td>123</td>
<td>306</td>
<td>304</td>
<td>171</td>
<td>130</td>
<td>1,034</td>
<td>1.19%</td>
</tr>
<tr>
<td>25-34 years old</td>
<td>2,071</td>
<td>3,176</td>
<td>3,959</td>
<td>4,217</td>
<td>3,970</td>
<td>17,393</td>
<td>20.00%</td>
</tr>
<tr>
<td>35-44 years old</td>
<td>4,406</td>
<td>5,165</td>
<td>6,417</td>
<td>6,854</td>
<td>7,164</td>
<td>30,006</td>
<td>34.51%</td>
</tr>
<tr>
<td>45-54 years old</td>
<td>3,069</td>
<td>3,812</td>
<td>5,047</td>
<td>5,325</td>
<td>5,568</td>
<td>22,951</td>
<td>26.40%</td>
</tr>
<tr>
<td>&gt; 55 years old</td>
<td>963</td>
<td>1,543</td>
<td>2,079</td>
<td>2,385</td>
<td>2,499</td>
<td>9,469</td>
<td>10.89%</td>
</tr>
<tr>
<td>No Information</td>
<td>3,223</td>
<td>2,226</td>
<td>313</td>
<td>215</td>
<td>114</td>
<td>6,091</td>
<td>7.01%</td>
</tr>
<tr>
<td>Total</td>
<td>13,855</td>
<td>16,228</td>
<td>18,119</td>
<td>19,167</td>
<td>19,575</td>
<td>86,944</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

(Source: Malaysia Department of Insolvency, 2012)

The bankruptcy cases have increased 41.28% in the 5 years period, which is from 13,855 cases in 2008 to 19,575 cases in 2012. Refer to Table 2, most of the bankrupts are under the age group of 35 to 44 years old, which are 34.51% or 30,006 cases out of the total cases of 86,944. Moreover, bankrupts who above the age of 55 years old showed the most significant rise among all the age group, which has an increase of 159.5% from 963 cases in 2008 to 2,499 cases in 2012.

Table 2: The number of bankruptcies based on causes from 2008 to 2012

<table>
<thead>
<tr>
<th>Causes</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Total</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Car Loans</td>
<td>3,085</td>
<td>3,678</td>
<td>5,639</td>
<td>5,137</td>
<td>5,242</td>
<td>22,781</td>
<td>26.20%</td>
</tr>
<tr>
<td>House Loans</td>
<td>985</td>
<td>1,056</td>
<td>3,230</td>
<td>4,576</td>
<td>5,341</td>
<td>15,188</td>
<td>17.97%</td>
</tr>
<tr>
<td>Personal Loans</td>
<td>1,506</td>
<td>2,806</td>
<td>2,805</td>
<td>3,168</td>
<td>3,251</td>
<td>13,536</td>
<td>15.06%</td>
</tr>
<tr>
<td>Business Loans</td>
<td>1,541</td>
<td>1,596</td>
<td>2,048</td>
<td>2,301</td>
<td>2,978</td>
<td>10,464</td>
<td>12.04%</td>
</tr>
<tr>
<td>Corporate Guarantor</td>
<td>741</td>
<td>556</td>
<td>907</td>
<td>1,038</td>
<td>654</td>
<td>3,896</td>
<td>4.48%</td>
</tr>
<tr>
<td>Guarantor</td>
<td>445</td>
<td>786</td>
<td>1,141</td>
<td>1,364</td>
<td>892</td>
<td>4,628</td>
<td>5.32%</td>
</tr>
</tbody>
</table>

Personal Bankruptcy Among The Residents In Klang Valley

Refer to Table 2, non-performing car loans is the main cause of bankruptcies within the years of 2008 to 2012 as 26.20% or 22,781 individuals out of 86,944 individuals bankrupt due to the reason of unable to pay car loans. Moreover, non-performing house loans is the major reason of increasing bankruptcies cases as it shows more than 4 times increased in cases from 985 cases in year 2008 to 5,341 cases in 2012. This might due to the formation of housing bubble that cause the inflation on housing prices.

In order to curb bankruptcies problem, Bank Negara Malaysia (BNM) has set up two agencies in April 2006, which known as the Department of Insolvency (MDI) and Agensi Kaunseling dan Pengurusan Kredit (AKPK). The mission of Malaysia Department of Insolvency (MDI) is to facilitate and control bankruptcy problems while Agensi Kaunseling dan Pengurusan Kredit (AKPK) is playing a role of providing financial information as well as debt reschedule plan for individuals who are facing financial problems (Cheng, Rajagopalan, Hamid, Wei, & Ahmad, 2015). However, the increasing number of bankruptcies cases from 2008 to 2012 showing that the agencies are not effective in curbing the problem.

II. RESEARCH FRAMEWORK INDEPENDENT VARIABLES DEPENDENT VARIABLES

According to figure 1, the independent variables (IV) in the research are credit card debts, poor money management, financial literacy, and non-performing loan and the dependent variable (DV) of the research is personal bankruptcy.

III. ANALYSIS RELIABILITY TEST

Reliability test is conducted in order to measure the consistency of the results when tested repeatedly. The measurement of internal consistency will provided result in term of coefficient alpha or Cronbach alpha. According to Nunnally (1981), the Cronbach alpha coefficient should exceed 0.7. However, refer to Sekaran (2006), the coefficient alpha value of more than 0.6 is accepted. The researcher in this study will adhere to the suggestion of Nunnally (1981), which the alpha value should exceed 0.7 to be accepted. Table 3 shows the results of reliability test on the variables in this research.

<table>
<thead>
<tr>
<th>No.</th>
<th>Variables</th>
<th>No. Of Items</th>
<th>Cronbach Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Personal Bankruptcy</td>
<td>7</td>
<td>.718</td>
</tr>
<tr>
<td>2.</td>
<td>Credit Card Debts</td>
<td>6</td>
<td>.751</td>
</tr>
<tr>
<td>3.</td>
<td>Money Management</td>
<td>13</td>
<td>.821</td>
</tr>
<tr>
<td>4.</td>
<td>Financial Literacy</td>
<td>7</td>
<td>.842</td>
</tr>
<tr>
<td>5.</td>
<td>Non-Performing Loan</td>
<td>5</td>
<td>.818</td>
</tr>
</tbody>
</table>

(Source: Malaysia Department of Insolvency, 2012)
From the results above, it clearly shown that all the variables have obtained the value of Cronbach alpha that exceeding 0.7. This indicates that all the measurements are reliable.

**CORRELATION ANALYSIS**

Table 4 shows the results of correlation between the dependent variable and independent variables which are used to examine the hypothesis in this research. Personal bankruptcy shows a moderate correlation with credit card debts and a high correlation with the money management. However, personal bankruptcy reveals a very low correlation with financial literacy and non-performing loan.

Next, credit card debts show moderate correlation with personal bankruptcy as well as money management. The results of correlation analysis of credit card debts with financial literacy and non-performing loan display a very low correlation. Moreover, the money management reveals moderate correlation with personal bankruptcy and credit card debts. Also, money management shows a very low correlation with financial literacy and non-performing loan. Furthermore, non-performing loan displays a low correlation with personal bankruptcy, credit card debts, and money management. However, the correlation between non-performing loan and financial literacy is high.

**MULTIPLE REGRESSION ANALYSIS**

Multiple regression analysis was carried out to test the variables in this research in order to examine the hypothesis. Refer to table 5, the value of R² is 0.427. This indicates that 42.7% of the total variance in the dependent variable (personal bankruptcy) is explained by the total independent variables (credit card debts, money management, financial literacy, and non-performing loan). Hence, the remaining 57.3% might accounted by other variables that are not included in this research.

The significant value of each variable indicates whether the hypothesis should be accepted or rejected. If the significant value is lower than 0.05, the hypothesis is accepted. In contrast, the hypothesis is rejected if the significant value is above 0.05. Table 4.4 shows the results of multiple regression analysis.
IV. OVERALL FINDINGS BASED ON THE RESEARCH OBJECTIVES TO FIND THE RELATIONSHIP BETWEEN PERSONAL BANKRUPTCY AND CREDIT CARD DEBTS

One of the research objectives of this research is to find the relationship between personal bankruptcy and credit card debts. According to the result of this research, the hypothesis that illustrates there is a positive relationship between personal bankruptcy and credit card debts is rejected. In contrast to the result of this study, the previous researches indicate that there is a positive relationship between personal bankruptcy and credit card debts. According to the empirical study of Schor (1998), there is direct relationship between personal bankruptcy and credit card debts. Similar to the research conducted by Feinberg (1986), which concluded that credit card debts is one of the factors of personal bankruptcy. Also, Teo at el. (2013) found that rising credit card debts will cause the increase in personal bankruptcy.

To find the Relationship between Personal Bankruptcy and Money Management

The next objective of this research is to find the relationship between personal bankruptcy and money management. Based on this result of this study, the hypothesis that demonstrates a positive relationship between personal bankruptcy and money management is accepted. Similar to the result of the study, there are few previous researches reveal that there is a direct relationship between personal bankruptcy and money management. According to Shaliza et al. (2013), poor money management is one of the reasons that leads to personal bankruptcy. Besides, Othman, Rahim, and Sabri (2015) stated that there is a direct relationship between money management and personal bankruptcy. Moreover, Ibrahim, Harun, and Isa (2010) found that one of the factors of increasing bankruptcy cases in Malaysia is the lacking of money management skills.

To find the Relationship between Personal Bankruptcy and Financial Literacy

Another objective of this research is to find the relationship between personal bankruptcy and financial literacy. Refer to the results of the findings, the hypothesis of this study that stated there is a positive relationship between personal bankruptcy and financial literacy is accepted. Similar to the results of this study, Lusardi and Mitchell (2009) supported the statement of positive relationship between personal bankruptcy and financial literacy. Refer to the research of Huhmann and McQuitty (2009), the financial literacy is diametrically related to personal bankruptcy. Furthermore, Othman et al. (2015) revealed that individuals who lacking of financial literacy are likely to face financial problems or bankruptcy.

To find the Relationship between Personal Bankruptcy and Non-Performing Loan

The last research objective of this study is to find the relationship between personal bankruptcy and non-performing loan. The hypothesis of this research that indicates there is a positive relationship between personal bankruptcy and non-performing loan is accepted. There are also some previous studies that showing there is a positive relationship between personal bankruptcy and non-performing loan. According to the research of White (2007), the primary factor that caused increasing bankruptcy cases is failed to repay the loan borrowed. Besides, Brown and Taylor (2008) stated that high borrowings will lead to personal bankruptcy. Also, the study of Delgado and Saurina (2004) indicated that non-performing loan would results in personal bankruptcy.

CONCLUSION

The overall findings were discussed based on the objectives of the research. There are some results from previous studies included as a comparison to the findings of this research. Besides, the implication of the study was identified. Also, the limitations of the study were listed, as well as the recommendations for future researches were included at the end of the chapter as the reference for future researchers.

REFERENCES


