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Consumers' Credit Card Bankruptcy: Cause and Effect

Z. Zaminor, J. Azila, M.Z. Siti Zamanira and M.S. Che Rusuli

Faculty of Entrepreneurship and Business, Universiti Malaysia Kelantan, Kelantan, Malaysia

Abstract: A number of studies have pointed to various mistakes that credit card users might make in their consumption-saving and financial decisions. Recently, young users like to hold a number of credit card which is automatically they have a power of spending money. Some people claimed that by having a number of credit cards, it will reflect someone socio-economy status. Without realizing the impact of the excess usage of credit card young users were declaring bankrupt due to credit card debts. This study discussed the bankruptcy issues among young users of a credit card in Malaysia. The results disclose that the compulsive spending is more influenced towards the factors that lead to bankruptcy in the early age of credit card user.

Key words: Bankruptcy, credit card, money, financial, Malaysia

INTRODUCTION

The progress of a nation depends on the strength of the economy, development, harmony and stability among people from various aspects of institutions of family, career and financial stability. In this globalization era, most of the people want to achieve the standard of living in harmony. However, there are some people who failed in their financial planning and leaving them stuck with a high debt burden in order to satisfy personal desires and needs. Therefore, this problem becomes more serious as each debt is not managed properly made and resulted in the individual finally recognized bankruptcy. Bankruptcy or better known as the bankrupt is not a new phenomenon in Malaysia. Increase in the percentage of Malaysians who declare bankruptcy each year a growing concern and this need to be taken seriously in order to achieve stability and economic life of the country. Goi and Nee reported that credit card bankruptcy among Malaysian youth has grown from 2.10% in 2006, -7.63% in 2007. Mean while in Metro daily newspapers dated February 26, 2014, statistics released by the Department of Insolvency Malaysia showed that nearly 45,000 individuals aged >35 years in the country declared bankruptcy 3 years ago. Of the total, an average of almost 41 individual bankruptcies every day due to the failure to explain the burden of credit card payments, medical fees, hire purchase and debt along.

According to Table 1 the statistics presented by the MDI show that a total of 122.169 Malaysians who have declared bankruptcy from 2007-2013. It is increasing every year and given concern to the MDI and if this issue is not addressed, then it will have a negative impact economic development and would threaten the stability of life of Malaysians in the future.

Table 1: No. of Malaysians declared bankruptcies from 2007-2013

Years	Total people
2007	13,238
2008	13,855
2009	16,228
2010	18,119
2011	19,167
2012	19575
2013	21,987
Total	122,169

Department of Insolvency Malaysia (MDI)

Table 2: Rate of bankruptcy by age from 2007-2013

Age (Years)	Percentage
35-44	34.31
45-54	26.49
25-34	20.09
55 and above	11.77
Others	7.34
Total	100

Based on Table 2, the percentage of Malaysians are declared bankrupt increasing from 2007-2013 In addition, the Malays showed the highest percentage compared to the other races in Malaysia. From the perspective of age, most Malaysians are declared bankrupt at the age of 35-44 years and this shows that Malaysians have been burdened with debt from the beginning made them unable to repay the debt. Beside Malaysians is the second worst debt payers in Asia Pacific which is the number one is Vietnam. A lot of credit card users especially in the early age faced with the bankruptcy because in term of loans in arrears, credit card is consistently behind of hire purchase or car loans, personal loans and housing loans. Thus, this study is to determine the bankruptcy among young user in Malaysia. By looking at the statistics it showed that the youth are the ones who have fallen in the critical problems of this bankruptcy. Thus the issue of bankruptcy is not to be underestimated by everyone, especially young people in Malaysia.

Corresponding Author: Z. Zaminor, Faculty of Entrepreneurship and Business, Universiti Malaysia Kelantan, Kelantan, Malaysia

MATERIALS AND METHODS

A study done by Hayhoe *et al.* (2000) found that the most things influenced of credit card purchasing behaviour is an uncontrollable attitude in spending among college student. It is because of the uncontrollable attitudes that the people in the categories of early ages become a big spender. Furthermore, this will lead them to bankruptcy without their consent. Meanwhile, according to Chien and Devaney (2001), those people who have a specific attitude index, the amount of the outstanding credit balance is higher. This is because when a person cannot estimate their expenses every month towards using of credit card or in the same meaning, they cannot control their attitudes towards using credit, the installment debts that they were faced would be higher. Due to Nga *et al.* (2001) the main variables in deciding factors of higher credit card due among early age in Malaysia are attitudes. This is because the attitudes give a slightly positive result related to credit card usage among people in Malaysia. Other researchers such as Yang and coauthors, they found an interesting resulted which is those who can control their attitudes in spending using credit card and same goes with the person who had more positive attitude have a greater obsession in money. Joyce and coauthors found that materialism is a partial mediator in the relationship between image consciousness and compulsive spending. The study also found that compulsive spending is not a mediator in the relationship between materialism and credit card usage intentions. However, compulsive spending does exert a sizable influence.

Based on the research by Warwick and Mansfield (2000), students are easily fall into bankruptcy since they apply for a loan for study and many more. Besides that students do not spend enough time researching credit card terms and are not aware of the applicable interest rates and that is why youth basically having an unhealthy lifestyle because they do not know what exactly they do and why actually they spend and for what they spend of. Park and Burns (2005) also found a significant positive relationship in their past studies shows that there is a significant relationship between both impulsive spenders and compulsive spender between fashion orientations. In this research, the researcher defined impulsive spender is a person who only spend for their own necessity but it is compared with compulsive spending were this group of people spend their money to satisfied their wants. This group of people basically can be categories and known as shopaholic.

Previous study by Saraneva and Saaksjarvi (2008) stated the compulsive spenders are basically females and young adults who owned credit card. Another research was made in Australian found people perception at those who have power and prestige is compulsive spenders. In present, society knows that people who earn higher income and those who owned a lot of credit cards is a symbol of social status achievement. This is due to the people perception towards those who have a lot of credit card can be categorized as a higher degree of materialism (Phau and Woo, 2008). Others, media sources also played an important role as a greater exposure that has force the belief that class of social status can be influence by the material possessions owned by someone. Besides that the study found that most of people feel pressure because of the existence of the social status because young people need to immediate respond to the external changes in term of latest trends in fashion and lifestyle. Thus, it wills expose to the young people to spend over their limit to catch up with the latest brand and it slowly lead them into bankruptcy without their consent, Bakewell and Mitchell (2003). According to Noordin *et al.* (2012) they found that there is significant relationship between knowledge about credit card and bankruptcy and bankruptcy due to credit card debts. A lot of youth that already bankruptcy is come from those who do not have enough knowledge about the credit card and somehow they do not have knowledge to manage their spending wisely. This is the same finding found by Liebermann and Goor (1996). Meanwhile based on Chien and Volve, they found that most of youth has limited knowledge about the personal financing and credit card. The study revealed that 53% from the respondent only have a limited knowledge about personal financing.

The study will use the descriptive research design through survey method. The survey method will involve a structures questionnaire that given to respondents and designed to elicit specific information. The questionnaire consists of five parts. Regarding to the topic research, the research samples of the population will use as a respondent. In this research, the population are been chosen based on their age which is from 25 years old until 35 years only and each of the respondents are entitle as credit card user. A cluster sampling survey was conducted among the respondent and the questionnaires were distributed through convenience sampling which is among customers and the respondent were asked whether they hold any credit card before the questionnaire was given. The respondents involve in this study only 150 located at RHB at Menara Yayasan Tun Razak, Kuala Lumpur.

RESULTS AND DISCUSSION

Table 3 showed the respondent's profile. The number of respondent based on gender indicates that 42.50% respondents were male and 54.50% were male. Most of the respondents were Malay (37.30%) followed by Chinese (33.60%) and Indian (26.10%). Majority of respondent were in the range of 26-30 years of age (44%), followed by 35.10% with age between 31 until 35 years old and 17.90% with age between 20 until 25 years old. There were 55.20% respondents are single and 41.80% are married. The survey shows that 41.80% of the respondents are degree holders. In terms of monthly income, most of respondents earned between RM1001-3000 (48.50%). In total, there have 81 respondents (60.40%) from private sector and another 20 respondents (14.90%) were in government sector employees.

Based on descriptive analysis indicates that the highest mean score was more influenced and gives a positive effect to consumer. According to Table 4, the standard deviation of bankruptcy, knowledge, attitude, spending and lifestyle were acceptable. The highest mean score was compulsive spending which are 4.06002. That means, spending was more influenced and gives a positive effect to consumer. Overall, the result showed that the factors lead to bankruptcy in the early age among credit card user. Meanwhile, the result on reliability test of bankruptcy among young user of credit card in Malaysia shows that the Cronbach's alpha for knowledge, attitude, spending and lifestyle are above 0.50. Therefore, the result was acceptable because there is good when the result is within the range 0.50 and above. Thus, all the variables were considered acceptable by the rule of thumb for acceptance.

Pearson's correlation coefficient is a technique for investigating the relationship between two variables. It also measures of strength of the association between these two variables. Based on Table 5, the result obtained that the correlation coefficient, R, for knowledge, attitude, spending and lifestyle are 0.102, 0.596, 0.984 and 0.383, respectively. Therefore, the data showed that there were strong positive correlations for all variables except for knowledge.

Table 6 showed the regression test on relationship between bankruptcies among young user of credit card in Malaysia. Based on the table it shows that R means correlation that is to measure the relationship between dependent and independent variables. The result indicates that R is 0.985 (98.5%) which high degree of correlation. The R^2 is correlation of determination. This measurement shows the percentage dependent variable

Table 3: Respondent's profile

Gender	n	Percentage
Male	57	42.5
Female	73	54.2
Race		
Malay	50	37.3
Chinese	35	26.1
Indian	45	33.6
Age (years)		
20-25	24	17.9
26-30	59	44
31-35	47	35.1
Status		
Single	74	55.2
Married	56	41.8
Education		
High school	24	17.9
Diploma	50	37.3
Degree	56	41.8
Income (RM)		
<1000	0	0
1001-3000	65	48.5
3001-5000	64	47.8
>5000	1	0.7
Occupation		
Government	20	14.9
Private	81	60.4
Self-employed	29	21.6

Table 4: Descriptive statistics of critical variables

Variables	N	Mean	Cronbach's alpha	SD
Bankruptcy	150	3.87540	0.812	0.877465
Knowledge	150	2.11230	0.755	0.858378
Attitude	150	3.74924	0.511	0.769998
Spending	150	4.06002	0.839	0.804446
Lifestyle	150	3.61538	0.704	0.804446

Table 5: Correlation coefficient test on bankruptcy among young user of credit card in Malaysia

Correlations	Bankruptcy	Knowledge	Attitude	Spending	Lifestyle
Pearson correlation	1	0.102	0.596**	0.984**	0.383**
Sig. (2-tailed)		0.250	0.000	0.000	0.000
N	130	130	130	130	130
Pearson correlation	0.102	1	-0.005	0.091	0.117
Sig. (2-tailed)	0.250		0.953	0.301	0.183
N	130	130	130	130	130
Pearson correlation	0.596**	-0.005	1	0.619**	0.689**
Sig. (2-tailed)	0.000	0.953		0.000	0.000
N	130	130	130	130	130
Pearson correlation	0.984**	0.091	0.619**	1	0.374**
Sig. (2-tailed)	0.000	0.301	0.000		0.000
N	130	130	130	130	130
Pearson correlation	0.383**	0.117	0.689**	0.374**	1
Sig. (2-tailed)	0.000	0.183	0.000	0.000	
N	130	130	130	130	130**

Correlation is significant at the 0.01 level (2-tailed)

Table 6: Regression test on relationship between bankruptcies among young user of credit card in Malaysia

Variable	B	SE	β	t-values	Significant
Constant	-0.176	0.091	-	-1.931	0.056
Knowledge	0.005	0.017	0.004	0.276	0.783
Attitude	-0.08	0.037	-0.056	-2.169	0.032
Spending	1.054	0.021	1.001	50.339	0.000
Lifestyle	0.056	0.026	0.046	2.133	0.035
R			0.985		
R^2		0.97			

can be explained by independent variables. Therefore, the model suggests that the predictor (bankruptcy, knowledge, attitude, spending and lifestyle) is able to explain 0.970 (97%) of variance towards the use of credit card. However, only three factors (attitude, spending and lifestyle) are positively related to the bankruptcy among young user with a significant level at $p<0.05$.

CONCLUSION

Now a days the usage of credit card has no limitation. Limitation itself means that everyone can use it, especially in the early age. Credit card is actually one of the alternatives to make a payment transaction. It gives an advantage for the users of credit card especially young generation to purchase a product without carrying a lot of money anywhere. They tend to use credit card to buy either good or services that is to fulfill their satisfaction and somehow they do not realize that usage of credit card without limitation will lead them to bankruptcy. This study examined on bankruptcy among young user in Malaysia which the respondents are from customers in RHB Islamic (Menara Yayasan Tun Razak). The result indicated that the attitude, spending and lifestyle are factors that influence bankruptcy among young user in Malaysia. This result was supported by Hayhoe *et al.* (2000) stated that attitude is a one of the factors that lead to bankruptcy in the early age among credit card user. It is because of the uncontrollable attitudes; the people in the categories of early ages become a big spender. As the bankruptcy due to credit card debts has increase especially among people aged below 30, serious effort should be taken to curb this issue. Thus, researcher has come out with several recommendation or suggestion regarding this issue. Firstly, it is recommended to encourage people aged below 30's to use the debit card rather than credit card in order to reduce the debt and bankruptcy among them. Besides providing the credit education to the people aged below 30 as well as public can help them in managing their money wisely and use the credit correctly to avoid debts. It can be done through financial seminar, talk from professional person or forum. The credit education can help one's to manage their financial, debt and set up a better planning for the future and it should begin as early as possible.

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