

Level of Financial Literacy in Malaysia

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Abstract

Governments around the world are recognizing the benefits to individuals and national economies of having a financially literate population that has access to appropriate financial products with relevant consumer protection in place. Measurement and analysis level of financial literacy play important roles in designing and implementing policies. This report reflects the level of financial literacy among Malaysians who resident in Klang Valley. The finding of analyses shows that generally 51.54% of Malaysians have the basic financial knowledge and this figure drops to 37% for advance financial literacy. The results indicate that government should provide an appropriate financial education for middle young age and above individuals. There is no clear difference between the level of financial literacy between male and female. Moreover, Indians needs more financial education service rather than Malay and Chicness races. Also, individuals with low level of income suffer from a low level of financial literacy.

Keywords: Financial literacy, financial education, financial knowledge

1. Introduction

Financial literacy is the convergence of financial, credit and debt management and the knowledge that is necessary to make financially responsible decisions. A lack of financial literacy is not only an issue in developing economies but also people in developed or advanced economic countries fail to demonstrate a strong knowledge of financial principles in order to understand and negotiate the financial matters, manage financial risks effectively and avoid financial difficulties (Xu & Zia, 2012). Financial knowledge is especially important in times where increasingly complex financial products are easily available to a wide range of the population (Guiso & Viviano, 2015). Moreover, changes in the pension schemes transfer decision-making responsibility to participants who previously relied on their employers or governments for their financial security after retirement (Benartzi & Thaler, 2013). Without an understanding of basic financial concepts, people are not well equipped to make

decisions related to financial management. People who are financially literate have the ability to make informed financial choices regarding saving, investing, borrowing, and more. A measure of financial literacy can be used to indicate the level of need for financial education across the population. More detailed analysis can be used to identify the aspects of financial literacy most in need of work, and the groups of the population that need targeted support. Malaysia, one of the developing countries in the Asia-Pacific region, also faces a crucial issue regarding financial behaviors among the general public. Improper financial decisions among the public have caused various problems such as harassment from loan sharks, bankruptcy, and even suicide. Bankruptcy statistics among Malaysians are also on the rise (Ming-Yen, Chong & Mid Yong, 2013). Cases such as these are due to improper financial behaviors among the public. It is believed that improper financial decisions are a result of low financial literacy.

The objective of this study is to investigate the level of financial literacy of Malaysians, resident in Klang Valley. The results of this report provide the great insight in order to enhance the public's financial literacy especially among the vulnerable groups of individuals.

2. Literature Review

Consumer expertise generally views the financial literacy of individual via how he/she manage financial matters successfully. Both experimental and non-

experimental studies revealed that understanding the basic principles of saving, like as compound interest, have a direct effect on financial preparation. Many types of research from all over the world showed many individuals have low levels of financial literacy and this issue has a relationship with lack of financial planning and insufficient savings for retirement (Lusardi and Mitchell, 2011, 2014). Several studies confirmed a strong correlation between financial literacy and a set of financial behaviors. Bernheim (1995, 1998) indicated there is a lack of basic financial knowledge amongst household whom even cannot perform very simple calculations. Having a similar argument, Hilgert, Hogarth, and Beverly (2003) found a strong association between financial literacy and day-to-day financial management. Moreover, financial literacy has also a relationship with a set of behaviors related to saving, wealth, and portfolio choice (Lusardi and Mitchell, 2011). BooN, Yee & Ting (2011) suggested that most Malaysian who have yet ensued personal financial planning were held back by their financial literacy level. In this paper, they linked the financial literacy level of individuals with their engagement in personal financial planning. The findings showed that in contrast to their non-financially literate counterparts, the readiness of the financially literate individuals is reflected in their involvement in the multiple aspects of personal financial planning.

Furthermore, Yoong, See & Baronovich (2012) found that some mediating effect existed between financial learning and behavioral assessment of personal finance, and that the older age groups had mediating effect on the relationship between financial learning and subjective perception of satisfaction with personal finance. Within this context, respondents were satisfied with their financial situation from the behavioral assessment of personal finances, subjective perception and perceived financial well-being perspective.

3. Methodology

The survey population consisted of Malaysian aged 18 and over resident in Klang Valley where the population is about 8 million people in 2014, and about 40% of the nation's GDP can be related to this area. The number of samples is nine hundred individuals with near to 66% return rate. Accordingly, questionnaires are distributed to Malaysian at numerous locations such as shopping malls, local markets, public libraries and restaurants and other "heavy" traffic areas. The questionnaire includes 10 questions to test levels of financial knowledge in two levels, basic and advance. They have been chosen to cover a range of financial topics and to vary in difficulty, although none of them is excessively complex and none of them requires expert knowledge. The first set of questions relates to basic financial literacy. They measure the ability to perform simple calculations (the first question), understanding of how

compound interest works (second question), and understanding of the effect of inflation (third question), assess knowledge of the time value of money (fourth question) and whether respondents suffer from money illusion (fifth question). The second set of questions to measure advanced financial knowledge. These are much more complex questions that are devised to assess knowledge of financial assets, such as stocks and bonds; the trade-off between risk and return; the understanding of risk diversification. The original set of questions is adopted from Health and Retirement Survey (2012) which is conducted in the USA twice a year. A financial literacy score has been created by summing correct answers and reporting them as a percentage.

4. Findings

The participants in this study vary from demographic characteristics, i.e. age, gender, race, marital status, education level, and occupation (Table 1). The majority of the respondents are in the age bracket of 30-39 (39.2%) and 40-49 (26.9%). At this age, many already made family and started their career. This clearly explained why 64% of the respondents are married. Moreover the figures in the marital status display that 27.9% of respondents are single and below 5% either widowed or divorced. Statistics shows that 44.4% of the study sample consists of female and 55.6% are male. Most of the participants in this survey are Malay (49.8%), then Chinese (34.6%), followed by Indian (12.5%) and others

(3.1%). Also, more than half of the respondents have a bachelor degree (53.1%). Near to 30.4% of them do not have an academic education, and 16.5% pursued their studies at post-graduation level. Also, 286 out of 520 respondents are working in the private sector (55%) and the number of respondents who are self-employed or government sector employees are 11.7% and 11% respectively.

Furthermore, near to 4% of participants are still busy with study and do not enter the workforce. The household monthly income figures show that approximately 43% of respondents are earning RM 3,001-RM 6,000 in a month, and 33% of them even earn RM 3000 and below. The percentage of monthly income of households in the range of RM 9,000 and above is just 9.5 %.

Table 1. Demographic Profile

		Frequency	Percent			Frequency	Percent
Gender	Male	310	59.6	Marital Status	Single	145	27.9
	Female	210	40.4		Married	332	63.8
			Divorced		26	5.0	
			Widowed		17	3.3	
Household Monthly Income	RM 3000 and below	166	31.9	Age	18-29	104	20.0
	RM 3,001-RM 6,000	215	41.3		30-39	201	38.7
	RM 6,001-RM 9,000	79	15.2		40-49	134	25.8
	RM 9,001-RM 12,000	37	7.1		50-59	68	13.1
	RM 12,001 and above	23	4.4		60 and above	13	2.5
Education Level	High school and below	44	8.50	Race	Malay	258	49.6
	Diploma	106	20.4		Chinese	185	35.6
	Bachelor Degree	282	54.2		Indian	65	12.5
	Post-Graduate	88	16.9		Others	12	2.3
Occupation	Self-employed	61	11.7	Military/Armed force	13	2.5	
	Government sector	56	10.8	Professional	48	9.2	
	Student	20	3.80	Other	44	8.5	
	Private sector employee	278	53.5				

The finding of analyses shows that generally 51.54% of Malaysians know the basic financial knowledge and this figure drops to 37% for advance financial literacy. This research assesses the level of financial literacy in different socio-economic groups.

Gender: Figures indicate that there is no significant difference between Malaysian female and male in their level of financial literacy in basic and advance level (Figure 1).

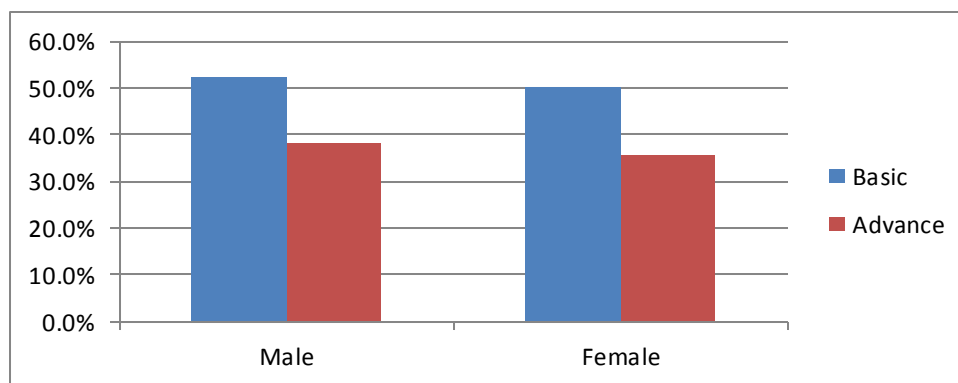


Figure 1: Level of Financial Literacy by Gender

Marital Status: Near to 55% of Malaysians who are married have a high level of basic financial literacy. Although their advance financial literacy is lower (40%) but still higher than other groups. Single Malaysians are the second group in marital

status regarding their level of financial literacy. However, the level of financial literacy is approximately the same among divorced and widowed Malaysians (Figure 2).

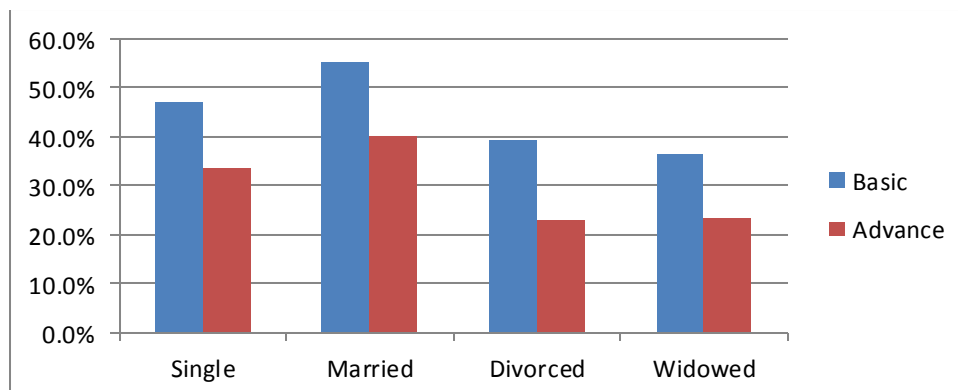


Figure 2: Level of Financial Literacy by Marital Status

Education: There is a clear pattern with higher educated individuals more likely to have high financial literacy scores in Malaysia. More than 60% of post-graduate individuals have basic financial literacy which falls to 20% among individuals with high school level of education. On the other hand, although the advance level of financial literacy has a relationship with

increased levels of education but it is lower than basic financial literacy (Figure 3). More interestingly this relation is so clear with having an economic and finance education. In other words, individuals who have a lot of economic and finance studies are more financial literate than other people with lack of any studies in these areas (Figure 4).

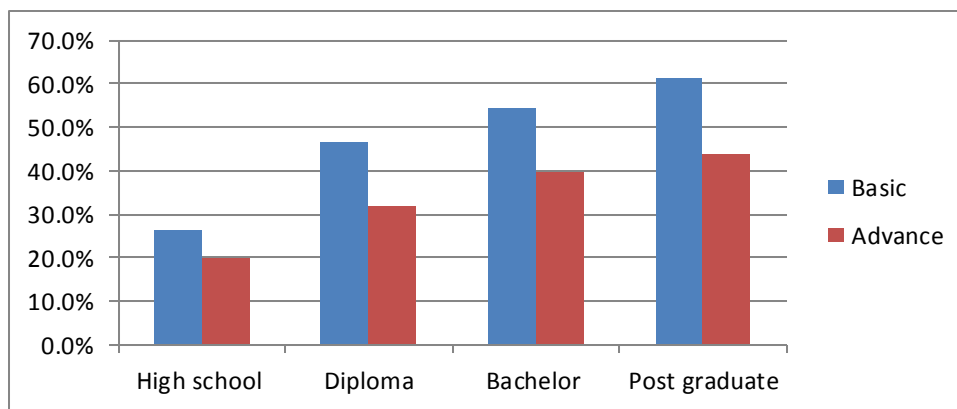


Figure 3: Level of Financial Literacy by Education

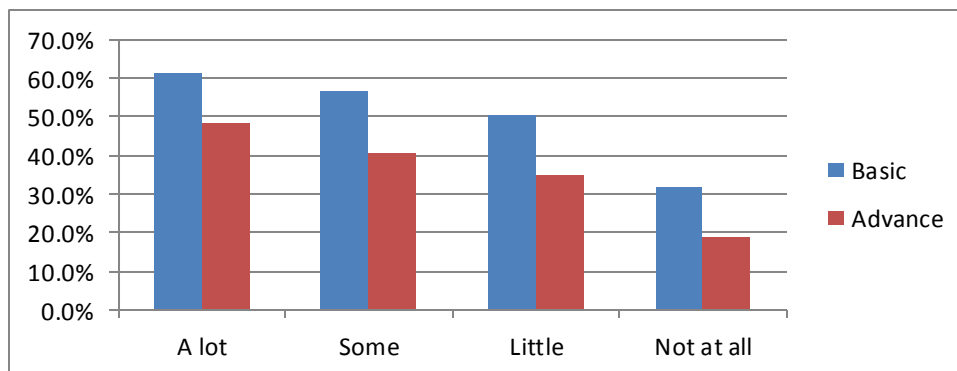


Figure 4: Level of Financial Literacy by Economic and Finance Studies

Race: Amongst the three ethnic groups, Chinese have more level of financial literacy even though this difference is not that much with Malay respondents. The

figure shows that the level of financial literacy among Indian is even lower than the general level of financial literacy in Malaysia (Figure 5).

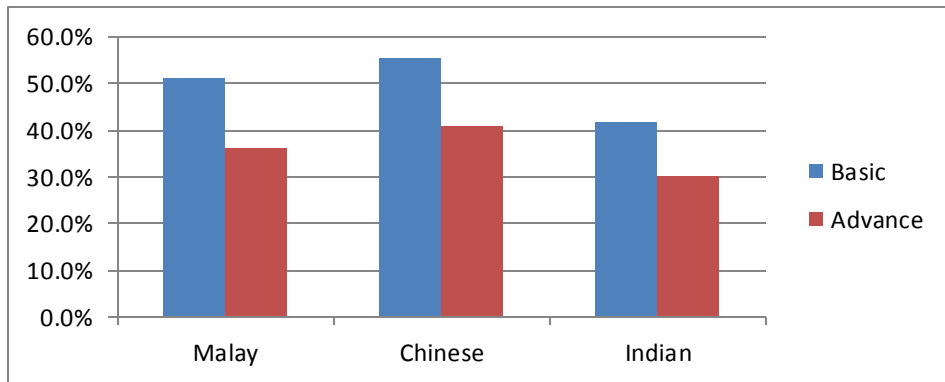


Figure 5: Level of Financial Literacy by Race

Age: There is also a noticeable variation in financial literacy by age. Individuals in the range of 18-29 age are associated with higher levels of financial literacy in both basic and advance level, whilst by

increasing the age the level of financial literacy is decreasing markedly. Figure 6 displays that the oldest respondents (60 years and above) are the lowest level of financial literacy.

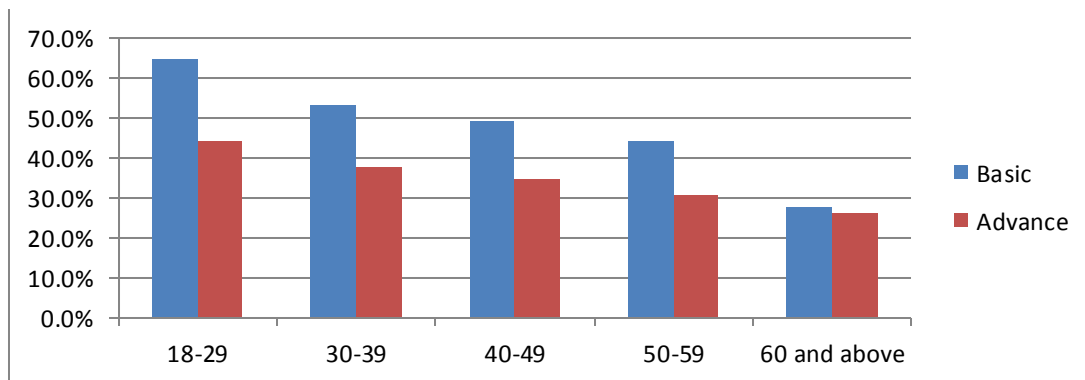


Figure 6: Level of Financial Literacy by Age

Income: The pattern of income indicates that respondents from the higher income households are more than likely to be in the highest level of financial literacy in both advance and basic level. Interestingly,

the level of basic financial literacy of people in two first groups (RM 3,000 and below and RM 3,001 –RM 6,000) are almost at the same level (Figure 7).

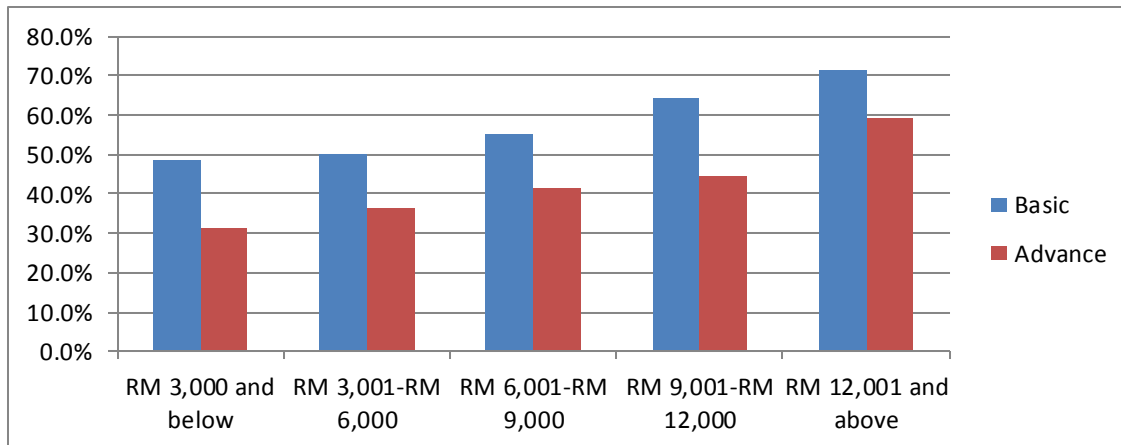


Figure 7: Level of financial literacy by Income

5. Discussion

This research by applying the global set of questions provides a way of capturing overall levels of financial literacy in Malaysia. It appears that near to half of Malaysians in this survey have some basic financial knowledge, but an understanding of other, advance financial concepts such as the function of bond and stock and diversification were lacking amongst sizeable proportions of the population (63%) in Malaysia. Results show that there is no considerable difference in the level of financial literacy between female and male. Analysis by socio-demographics suggests that inequality in opportunities may be preventing individuals from being more financially literate. In particular, a low level of education is associated with lower levels of financial literacy, suggesting that certain groups may currently be excluded from activities and learning opportunities that would improve their financial wellbeing. The evidence also gives further emphasis on the effect of

economic and finance studies on the level of financial literacy. Thus government needs to give special attention to the education system. This study identifies variations in the levels of financial literacy by age and indicates a pressing need for financial education targeted at above 30 years and older to address the age gap. This is particularly important since individuals in working time and planning for their retirement suffer the low level of financial literacy thus they cannot have an appropriate financial decision. Single, widowed and divorced individuals need support to improve their level of financial literacy to enhance their financial well-being. Moreover, Indians are in the poor level of financial literacy in both basic and advance level which would have side effects on their personal life and nation's economy. Furthermore, there is a clear difference between income level and level of financial literacy. Improving financial literacy amongst the poorest (individual with low income) would clearly be welfare

enhancing, helping them to make better use of their money, reducing the likelihood that they will make inappropriate decisions or ill-informed choices and potentially help them to identify ways of increasing their income. It is clear that the data

collected for this measurement project provides the first ever rich and detailed insight into the financial literacy of diverse populations in Malaysia. Further analysis will help to address questions raised by this initial analysis.

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