



UNIVERSITI PUTRA MALAYSIA

***INFLUENCE OF ECONOMICS, PSYCHOLOGICAL, SOCIOLOGICAL AND
CONSUMERS' INDEBTEDNESS ON CONSUMERS' PROPENSITY TO
OVER-INDEBTEDNESS IN MALAYSIA***

MONICA A/P SELVARAJA

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By

MONICA A/P SELVARAJA

**Thesis Submitted to the School of Graduate Studies, Universiti Putra Malaysia,
in Fulfilment of the Requirements for the Degree of Doctor of Philosophy**

January 2021

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Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfilment of the requirement for the degree of Doctor of Philosophy

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January 2021

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Debt is a double edge sword; it can create a positive or negative impact on an individuals' life. However, excessive debt accumulation behaviour of an individual creates a significant unfavourable impact on an individuals' lives. One of which is, it affects an individuals' ability to save for a rainy day. Literature states an individuals' external factors (i.e. economic factor) and internal factors (i.e. psychological factors, sociological, consumers' indebtedness) affects their tendency to engage in higher debt consumption decision-making (i.e. propensity to over-indebtedness). Although, numerous past researchers had independently viewed the influence of various factors that leads to over-indebtedness; however, these factors are found to vary regionally. This is due to the' non-observance of the earlier mentioned antecedence in a model and has been suggested in the past research. This study aims to develop a theoretical understanding of an individuals' behaviour leading towards their propensity to be over-indebted in Malaysia. Moreover, the rise in the personal debt issues in Malaysia, created various issues, such as personal insolvency mainly among young working adults. This thesis contributes by analysing the influence of economic, psychological, sociological and consumers' indebtedness on the propensity to be over-indebted in the local, regional context (i.e. Malaysia). Additionally, the role of consumers' indebtedness as a mediator between the earlier mentioned exogenous variables and the endogenous variable is determined. In this context, consumers' indebtedness is a consumers' obligation towards debt repayment, and the propensity to over-indebtedness is an individuals' likelihood of debt engagement which is beyond their capacity is subjectively measured.

Based on the review of the literature on debt consumption decision-making, three main theories were utilized in this study as follows. Firstly, the Life-Cycle Permanent Income Theory of Consumption [LC-PI]; secondly, Behavioural Economic Theory [BET]; thirdly, Theory of Indebtedness [TI]. To elaborate, LC-PI views the influence of economic factor, BET views the influence of psychological and sociological factor, and

TI views the influence of consumer's indebtedness towards propensity to over-indebtedness. Primarily the past researches as studied the influence of economic factor (objectively measured), psychological and sociological factors (subjectively measured) towards the tendency to be overly-indebted in separate studies. However, this research would combine the earlier mentioned exogenous variables to study its direct influence towards propensity to over-indebtedness, along with the mediator variable (i.e. consumers' indebtedness) in the local research context (i.e. Malaysia). The questionnaire-based survey is used to solicit responses from Malaysian working-adults, identified to be engaged in debt through the usage of filter questions. Data is collected from 247 respondents and were analysed using statistical procedures of SMART PLS version 3.0. The result of partial least square regression model revealed nine out of thirteen exogenous variables to be significant predictors of individuals' propensity to over-indebtedness (i.e. income shock, consumption shock, risk perception, overconfidence, attitude towards money, materialistic, money management, the culture of debt and consumers' indebtedness). On the other hand, findings suggested, emotion, myopia, financial literacy and compulsive consumption are found to be insignificant in influencing an individuals' propensity to be overly-indebted. Additionally, the study presents the test for twelve mediating hypotheses: seven were accepted, and five were rejected. To elaborate, consumers' indebtedness mediates between income shock, emotion, overconfidence, financial literacy, compulsive consumption, materialistic, money management and propensity to over-indebtedness. Past studies suggest, increase in consumers' indebtedness can lead a consumer to be over-indebted mainly due to irresponsible lending practice, thus, the higher a consumers' obligations to repay debt, the higher the propensity to be over-indebted. Thus, a good understanding of consumers' indebtedness is crucial, since early signs of people getting into financial difficulties are vital for developing intervention policies.

Several implications emerged from these empirical findings. This study found that the adverse event of income shock (i.e., job loss, illness, and divorce) can lead an individual into a higher propensity to be over-indebted. Similarly, consumption shock (i.e., engagement into high unsecured financing) are found to lead individuals into a higher propensity to be over-indebted. Moving on, under the psychological factors only risk perception, overconfidence, attitude towards money are found to lead an individual into a propensity to be over-indebted directly. Next, for sociological factors, this study found materialistic, money management, and culture of debt found to lead an individual into a propensity to be over-indebted. This study also found the higher consumers' indebtedness (i.e., higher obligation to debt repayment) found to fully mediated the relationship between emotion, financial literacy, compulsive consumption and propensity to be over-indebted. This shows, for example, an individual with high perceived financial knowledge are found to be insignificantly engaged in the propensity to be over-indebted. However, with the presence of higher perceived obligation to debt repayment, such individuals are then perceived to be overly-indebted. Therefore, the information provided by this thesis would be useful to both government and its associates to help create awareness on the importance of both external (economic factor), internal (psychological and sociological factor) and influence of consumers' indebtedness on their propensity to be overly-indebted.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk ijazah Doktor Falsafah

**PENGARUH FAKTOR EKONOMI, PSIKOLOGI, SOSIOLOGI DAN
KEBERHUTANGAN TERHADAP KECENDERONGAN PENGGUNA UNTUK
BERHUTANG SECARA BERLEBIHAN DI MALAYSIA**

Oleh

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Hutang adalah pedang bermata dua, ia boleh memberi kesan positif atau negatif terhadap kehidupan seseorang individu. Walau bagaimanapun, tingkah laku mengumpul hutang berlebihan akan menimbulkan kesan buruk yang ketara terhadap kehidupan seseorang individu. Salah satunya, ia mempengaruhi kemampuan individu untuk menabung untuk hari susah. Literatur menunjukkan faktor luaran (iaitu faktor ekonomi) dan faktor dalaman individu (iaitu faktor psikologi, sosiologi, hutang pengguna) mempengaruhi kecenderungan mereka untuk terlibat dalam pembuatan keputusan bagi penggunaan hutang yang lebih banyak (iaitu kecenderungan untuk berhutang secara berlebihan). Walaupun ramai penyelidik sebelumnya yang secara berasingan telah memberikan pandangan berkenaan pengaruh pelbagai faktor yang menyebabkan hutang secara berlebihan, namun faktor-faktor ini didapati berbeza mengikut wilayah. Jesteru itu, disebabkan ketidakpatuhan antisiden yang disebutkan dalam model sebelumnya dan kerana ianya telah dicadangkan oleh penyelidik pada masa lalu. Kajian ini bertujuan untuk membangunkan pemahaman teori yang lebih kukuh mengenai tingkah laku individu yang mendorong mereka untuk cenderung berhutang secara berlebihan di Malaysia. Tambahan lagi, peningkatan dalam isu-isu hutang peribadi di Malaysia telah menimbulkan pelbagai isu seperti kemuflian peribadi terutama di kalangan orang dewasa bekerja yang masih muda. Untuk mengetengahkan semula, tesis ini menyumbang dengan menganalisis pengaruh ekonomi, psikologi, sosiologi dan keberhutangan pengguna terhadap kecenderungan untuk berhutang secara berlebihan dalam konteks wilayah tempatan (iaitu Malaysia). Selain itu, peranan keberhutangan pengguna sebagai perantara di antara pemboleh ubah eksogenes yang disebutkan sebelumnya dan pemboleh ubah endogenes telah ditentukan. Dalam konteks ini, keberhutangan pengguna iaitu kewajipan untuk membayar semula hutang dan kecenderungan untuk berhutang secara berlebihan iaitu kemungkinan individu untuk terlibat dalam hutang yang melebihi kemampuan mereka, telah diukur secara subjektif.

Berdasarkan kajian literatur mengenai pembuatan keputusan penggunaan hutang, tiga teori utama telah digunakan dalam kajian ini. Pertama, Teori Penggunaan Pendapatan Kekal Kitaran Hidup [LC-PI]; kedua, Teori Ekonomi Tingkah Laku [BET]; ketiga, Teori Keberhutangan (TI). Untuk menghuraikan, LC-PI melihat pengaruh faktor ekonomi, BET melihat pengaruh faktor psikologi dan sosiologi, dan TI melihat pengaruh keberhutangan pengguna terhadap kecenderungan berhutang secara berlebihan. Keutamaan penyelidikan masa lalu adalah mengkaji pengaruh faktor ekonomi (diukur secara objektif), faktor psikologi dan sosiologi (diukur secara subjektif) terhadap kecenderungan untuk berhutang secara berlebihan dalam kajian yang berasingan. Namun, penyelidikan ini akan menggabungkan pemboleh ubah eksogenes yang disebutkan sebelumnya, untuk mengkaji pengaruhnya secara langsung terhadap kecenderungan untuk berhutang secara berlebihan bersama dengan pemboleh ubah perantara (iaitu hutang pengguna) dalam konteks penyelidikan tempatan (iaitu Malaysia). Kaji selidik berdasarkan soal selidik digunakan untuk mendapatkan respons daripada orang dewasa yang bekerja di Malaysia, yang dikenal pasti terlibat dalam hutang melalui penggunaan soalan saringan. Data dikumpulkan daripada 247 responden dan dianalisis menggunakan prosedur statistik SMART PLS versi 3.0. Hasil model regresi separa terkecil menunjukkan sembilan daripada tiga belas pemboleh ubah eksogenes menjadi peramal yang signifikan terhadap kecenderungan individu untuk berhutang secara berlebihan (seperti perubahan pendapatan, perubahan penggunaan, persepsi risiko, terlalu percaya diri, sikap terhadap wang, materialistik, pengurusan wang, budaya berhutang dan keberhutangan pengguna). Selain itu, penemuan telah mencadangkan, emosi, rabun, celik kewangan dan penggunaan kompulsif didapati tidak signifikan dalam mempengaruhi kecenderungan seseorang untuk berhutang secara berlebihan. Selain itu, kajian ini menunjukkan ujian untuk dua belas hipotesis perantaraan; tujuh diterima dan lima ditolak. Untuk menghuraikan, keberhutangan pengguna menjadi perantaraan di antara perubahan pendapatan, emosi, terlalu percaya diri, celik kewangan, penggunaan kompulsif, materialistik, pengurusan wang dan kecenderungan untuk berhutang secara berlebihan. Kajian lepas mencadangkan peningkatan dalam keberhutangan pengguna menyebabkan pengguna berhutang secara berlebihan terutamanya disebabkan oleh amalan peminjaman yang tidak bertanggungjawab, oleh yang demikian, semakin tinggi kewajipan pengguna untuk membayar hutang, maka, semakin tinggi kecenderungan mereka untuk berhutang secara berlebihan. Jesteru itu, pemahaman yang baik tentang keberhutangan pengguna adalah penting kerana tanda-tanda awal orang yang menghadapi masalah kewangan adalah kunci untuk merangka dasar campur tangan.

Beberapa implikasi telah muncul daripada penemuan empirikal ini. Kajian ini mendapati kejadian perubahan pendapatan yang merugikan (iaitu kehilangan pekerjaan, penyakit dan perceraian) boleh menyebabkan seseorang menjadi lebih cenderung untuk berhutang secara berlebihan. Begitu juga dengan perubahan penggunaan (iaitu penglibatan dalam pembiayaan tidak terjamin yang tinggi) didapati mendorong individu untuk lebih cenderung berhutang secara berlebihan. Seterusnya, di bawah faktor psikologi hanya risiko persepsi, terlalu percaya diri, sikap terhadap wang didapati secara langsung mendorong individu untuk cenderung berhutang secara berlebihan. Walau bagaimanapun, semakin tinggi keberhutangan pengguna (iaitu kewajipan pembayaran hutang yang lebih tinggi) didapati menjadi perantaraan sepenuhnya kepada hubungan di antara emosi, celik kewangan, penggunaan kompulsif dan kecenderungan untuk berhutang secara berlebihan. Ini menunjukkan, sebagai contoh, seseorang yang

mempunyai pengetahuan kewangan yang tinggi didapati tidak terlibat secara signifikan dalam kecenderungan untuk berhutang secara berlebihan. Namun dengan adanya kewajipan pembayaran hutang yang dirasakan lebih tinggi, individu tersebut kemudian dianggap berhutang secara berlebihan. Oleh itu, maklumat yang diberikan oleh tesis ini akan berguna kepada kerajaan dan sekutunya untuk membantu memberikan kesedaran mengenai pentingnya kedua-dua faktor luaran (faktor ekonomi) dan dalaman (faktor psikologi dan sosiologi) serta pengaruh keberhutangan pengguna terhadap kecenderungan mereka untuk berhutang secara berlebihan.



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This thesis was submitted to the Senate of the Universiti Putra Malaysia and has been accepted as fulfilment of the requirement for the degree of Doctor of Philosophy. The members of the Supervisory Committee were as follows:

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LIST OF ABBREVIATIONS

AKPK	Credit Counselling and Debt Management Agency
ATM	Attitude Towards Money
AVE	Average Variance Extracted
BET	Behavioral Economic Theory
BLR	Based Lending Rates
BNM	Bank Negara Malaysia
CC	Compulsive Consumption
CCA	Confirmatory Composite Analysis
CEICDATA	Census and Economic Information Center
CEO	Chief Executive Officer
CMV	Common Method Variance
COD	Culture of Debt
CS	Consumption Shock
DOS	Department of Statistics Malaysia
DSR	Debt Service Ratio
EC	European Communities
EIS	Employment Insurance Scheme
EM	Emotion
EPF	Employment Provident Fund
FL	Financial Literacy
FOMCA	Federation of Malaysian Consumer Association
GDP	Gross Domestic Price
GST	Good and Service Tax
HTMT	Heterotrait- Monotrait
IS	Income Shock

KS	Kolmogorov–Smirnov
LCH	Life Cycle Hypothesis
LC-PI	Life-Cycle Permanent Income Theory of Consumption
LIAM	Life Insurance Association of Malaysia
LL	Lower Limit
MAT	Materialistic
MM	Money Management
MOHE	The Ministry of Higher Education
MRTA	Mortgage Reducing Term Assurance
MY	Myopic
OC	Over Confidence
OVI	Over-Indebtedness
PEMANDU	Performance Management & Delivery Unit
PI	Propensity Towards Indebtedness
PLS	Path Least Square
PTPTN	National Higher Education Fund Corporation
RP	Risk Perception
SEM	Structural Equations Modelling
SMEs	Small Medium Enterprises
SW	Shapiro-Wilk
TI	Theory of Indebtedness
UL	Upper Limit
VIF	Variance Inflation Factor
WB	World Bank

CHAPTER 1

INTRODUCTION

1.1 Background of Studies

Debt is a double edge sword. The traditional consumption norms of individuals were initially subjected to using a person's available cash; however, individuals' perception of debt transformed from the early nineteenth century. The availability of credit financing has activated the debt consumption concept. Although debt financings were available much earlier than the twentieth century, it was significantly less popular than the present. However, in the late nineteenth centuries, the relative ease in attaining credit (i.e. debt) facilities aided a significant cultural shift in people's optimistic behaviour and attitude toward credit financing engagements. Nevertheless, when an individual is provided with or obtains credit financing, automatically, they will be required to service interest, being it periodically or progressively within a stipulated period or duration of time. The interest is generally at a rate higher than the initially obtained cash, which considers the interest been charged for the cash received (Calder, 2009).

Although higher interest is charged for cash advances, individuals continue to demand debt financings to meet their desired lifestyle. Thus, items deemed to be out of reach in the past could be consumed instantly through credit financing. Due to its' popularity among the general public, credit financings' eventually grew to meet demand. Likewise, there were apparent expansions in financial institutions that provided credit facilities (Dickson, 2017). According to the economic theory, the rise in consumers' spending could contribute to healthy and sustainable economic growth (Devarajan et al., 1996). Excessive debt financing brings household debt unsustainability issues in the economy, both locally and globally (Barba & Pivetti, 2008).

The household debt can include financial debt (i.e. auto loan, student loan, credit cards outstanding) and property debt. A rise in household debt has resulted in many economic crises, such as in America and Europe in 2007-2012. Thus, economists stated lowering household debt is important to a recovery in the economy. The household debt can be measured across numerous economies by viewing indebted households' measure relative to income (i.e. pre-tax and disposable income) or relative to the economy's size (GDP). Apart from that, the household debt service ratio (DSR) can be used to estimate the ratio of debt payment to an individuals' disposable personal income. Next, the statistical data of the household debt globally and in Malaysia will be detailed out.

The current Malaysian household debt to Gross Domestic Price (GDP) ratio in Malaysia is 82.2 per cent at the end of June 2019, falling from its peak of 86.9 per cent in 2015 (Dhesi, 2019). However, according to (Bank Negara Malaysia [BNM], 2019), despite the down in household debt, it is still a higher figure owing to the financings of property

that is beyond affordability and attainment of personal loan by low and middle-income group (Leng, 2019). The issue related to high reliance by the consumer on debt financing is communal among the global economic framework. As such, unfolding the perspective of debt financing globally and its' primary issues are deemed essential. Thus, the subsequent section is dedicated to the earlier mention subject.

1.2 Debt Financing Globally

Household debt is a global issue as debt amidst Asian countries is rising fast, posing challenges to its policymakers— due to the adverse effect as it reaches a tipping point. The five main Asia Pacific countries with high household debt issues apart from Malaysia are Thailand, Singapore, Hong Kong, South Korea and Australia. Firstly, in Thailand, the auto and housing market boom has caused a balloon in household debt similar to Malaysia. The household debt to GDP in Thailand is close to 78% in 2019, laying above Japan (i.e. a developed country), which is at 58%. Although Thailand's ratio is downward, it is still among the highest in the region. It is vital to note; the increase in debt was parallel to the Thailand governments tax incentive to encourage automobile purchases through debt engagement. Likewise, according to Thailand researchers, the expenditure on vehicle loans, mortgages, and credit cards among the newly employed workers is the major contributor to the rise in household debt (Weng, 2018).

Next, in Singapore, the decelerated property market has helped the household to deleverage. Permitted the household to GDP to fall below 70% in quarter one of 2019. Subsequently, the central bank in Singapore cut rates in 2018, decreasing the household to debt ratio. However, the economist states that the rate cut would again increase household debt risk (Rao, 2019). Next, the Household to GDP of Hong Kong is at 70.6%; it is relatively high for an Asian country, and mortgages make up about 80% of the debt owing to Hong Kongiers. Due to the low-risk nature of the mortgage market in Hong Kong, the high household to GDP in Hong Kong is less challenging than their neighbouring Asian economies. Thus, the household debt is parallel to household wealth since the household in Hong Kong is more liquid than other households such as Americans, Britons, and Singaporeans. Next, among the Asia Pacific countries, the household to GDP of South Koreans is at the highest point and are rising faster, being slightly behind Australia. The South Korean household debt has reached around 85% of the country's nominal GDP. Its central bank took various credit curbing efforts to manage the rise in the household debt to GDP. The rise in this debt is unlikely to serve a systematic risk to the economy. However, the increase in household debt will reduce private consumption that causes a serious risk to the economy (Weng, 2018).

Lastly, Australia records the highest household to GDP among Asia Pacific countries at 102% and rising at a rate of 0.3%. There is a potential risk to the stability of the banking system. However, this risk is stabilised due to Australia's developed economic status, which comes with lower external financing, lesser floating exchange rates, and a highly developed financial system. According to the Australian Survey of Income and Housing, 29% of households are over-indebted due to mortgages for investment homes (Weng, 2018). Apart from the Asian region, the household debt to global countries' GDP is as

follows; America is at 78%. The United Kingdom is at 86.7%, Canada at 100.2%, Denmark at 115.6% and Switzerland is 127.8%.

Nevertheless, when it is compared to the household debt among Asian countries, it is relatively higher. Since American and European countries have a developed status, they usually tend to experience higher household debt. However, a massive credit crunch occurred just before the economic recession of 2008 in America, which resulted from the fall in employability and subsequently reduced consumer credit demands and the ability to service existing credit financing (Yellen, 2009). It contributed to the rise in credit losses suffered by financial institutions in America. Ultimately, an economy's sustainability also depends on its consumers' ability to service their debts during an unexpected adverse change in their income. Likewise, an emerging world superpower China also undergoes a hike in household debt to disposable income, where debt raised from 40 per cent in 2004 to 68.3 per cent in 2019 (Han et al., 2019); however, it is under control.

The high household debt to GDP leaves both an individuals' financial position and the economy at risk. Firstly, the high household debt is found to position low-income earners in a more vulnerable position, especially in the absences of appropriate risk management techniques, such as through the attainment of insurance or saving for an unexpected adverse event. For example, in China, both high and low-income groups are engaged in substantial mortgage debt, leaving higher income and low group with the debt-to-income above 4 and 6 accordingly (Han, 2019). Thus, the larger debt-to-income ratio shows that the lower-income group has lower disposable income after their debt services, leaving them with lower purchasing power. Thus, they cause risk towards economic and financial stability in an increase of household debt to GDP. The high household debt would boost consumption in the short term; however, it reduces it in the medium to long term (Kim, 2019). According to Jorda et al. 2016, higher household debt may lead to lower GDP growth due to the constrain in future consumption growth. The hick-ups in the future consumption growth translates to slower investment into the real estate market, equity market and other products. The diagram in Appendix A(i) illustrates the risk of adverse income and consumption shock on the economy and financial stability.

The macroeconomic policies are a crucial element in forestalling excessive economic activity reductions during episodes of household deleveraging. In European countries, the mortgages have variable interest rates, which would quickly reduce mortgage payments and avert household defaults. Fiscal transfers were provided to boost their income to help service debt. These measures help the rising defaults, lower house prices, and lower aggregate demand (Leigh et al., 2012). In brief, most households are subjected to a higher debt due to the higher mortgage loan engagements. The Asian countries that are most affected are Thailand, Malaysia, and others. Due to an adverse financial shock, it reduces the ability to service loan resulting in financial defaults.

The Malaysian economy undergoes similar circumstances, lowering housing prices due to its decreasing demand. Malaysia household debt-to-income ratio was 146 per cent in 2014 and its household debt to GDP is at 93.3% in 2020. The average debt-to-income of developing economy is 42 per cent compared to the average of 110 per cent in advanced economies (Tong, 2018). Thus, Malaysia's household debt to income ratio is fourfold higher than the standard norm of a developing economy. It is a vital element to be investigated, help comprehension of the primary factors that would have contributed to an individuals' desires to accumulate a higher volume of credit financing. The next section would be viewing from a specific perspective on debt financing issues and their sustainability among Malaysians.

1.3 Debt Financing in Malaysia

Household debt has been rising rapidly in Malaysia since the global financial crisis in 2008, as illustrated in figure 1.1. As of the end of 2019, the Malaysian household's total debt stood at 83 per cent of GDP, above the emerging market average. The increase can be due to Malaysia's rapid financial market development and improving financial inclusion, with increased credit availability to households.

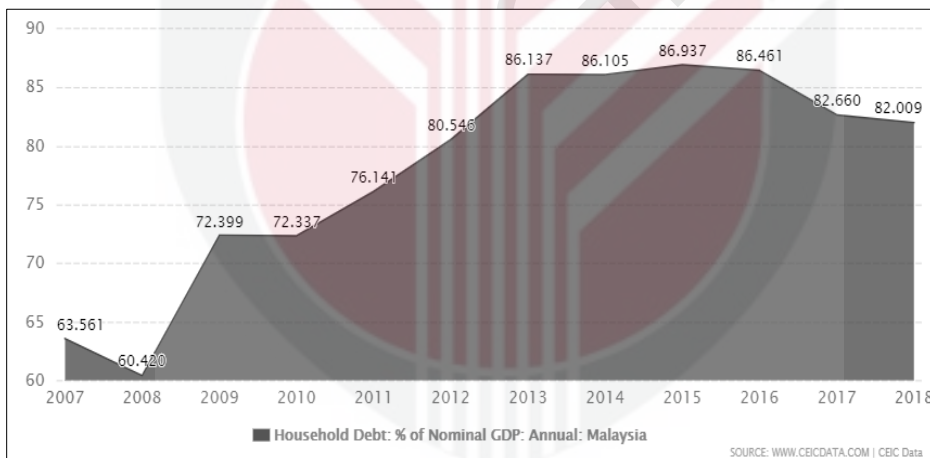


Figure 1.1 : Annual Household Debt Percentage of the Nominal GDP, Malaysia
(Source: Census and Economic Information Center, 2019)

Figure 1.2 compares household debt in Malaysia and other Asian counties from 2010 to 2019 and estimated to the current year. Malaysia is found to experience higher household debt to GDP compared to our close neighbour Thailand.

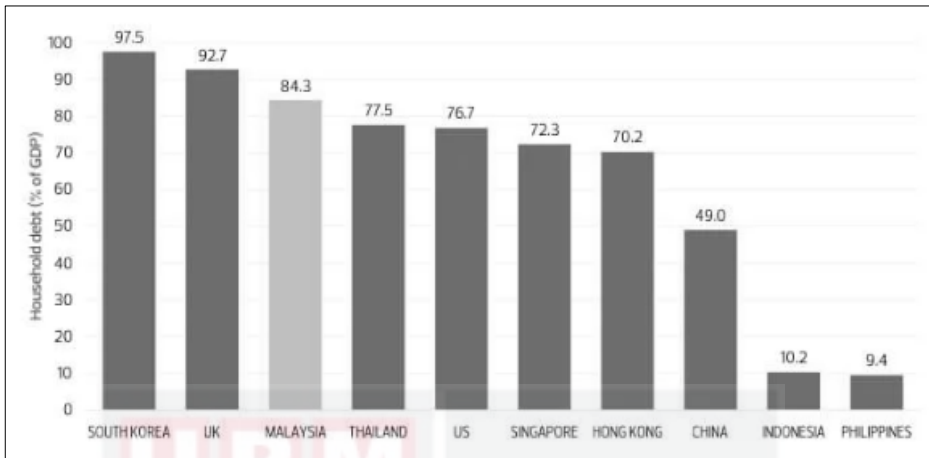


Figure 1.2 : Households Debt to GDP in 2018

(Source: Census and Economic Information Center Census and Economic Information Center, 2019)

Although the household debt to GDP in Malaysia has been in a downward trend from 2014 at 86.1 per cent to 83 per cent in the year 2018, it is still a worrying percentage. Bank Negara Malaysia (BNM) 's Financial Stability, and Payment System Report, (BNM, 2019) stated that residential property loan was the primary contributor to household debt growth. Figure 1.3 shows the primary household to debt ratios.

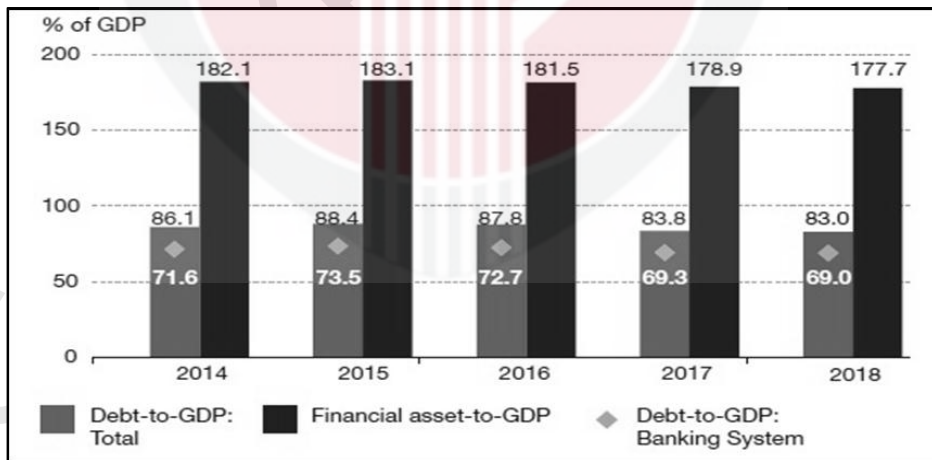


Figure 1.3 : Household Sector-Key Ratio

(Source: Bank Negara Malaysia, 2019)

The central bank of Malaysia stated; the growth of household debt slowed down to 4.7 per cent from 4.9 per cent in the year 2018, as illustrated in Figure 1.4. However, if an individual purchase a high valued property or attain personal financing, this would leave them at a higher risk of credit default (Leng, 2019). The rise in mortgage lending mostly drove the increase in household debt. At the end of 2018, the housing-related debt accounted for two-thirds of all household debt, while the remainder was due to consumption loan (i.e. credit cards, personal financing) and loans for business purposes (i.e. Small Medium Enterprises (SMEs)).

1.3.1 Type of loan and Debt Service Ratio

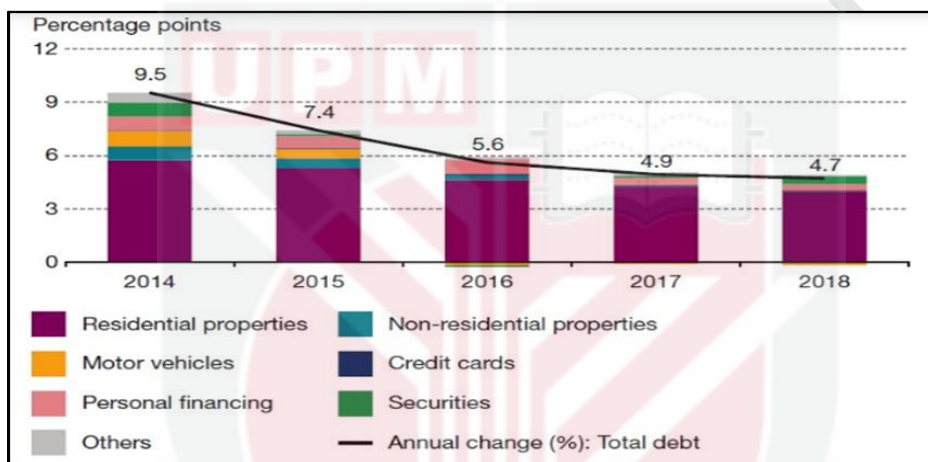


Figure 1.4 : Household Sector-Contribution to Growth in Debt
(Source: Bank Negara Malaysia, 2019)

The minimum down payment for a house is 10 (30) per cent for the first (second) homes. The mortgage rates in Malaysia is set at a discount or a premium of zero to the fifth teen per cent below or above the central banks' benchmark lending rate, and adjustments will be made depending on the market conditions. For example, in March 2020, the Based Lending Rates (BLR) were cut by 25 basis point. The BLR was revised from 6.65% to 6.4% (BNM, 2020). Household debt varies significantly across income groups as debt increases their default risk. Household data shows that housing-related assets and debt are the household balance sheet's main components (Figure 1.4). The housing assets constitutes the better half of all household assets. As the availability of credit for home purchase grew, mortgage debt became the main household liability. Hence, it would further strengthen with the cut in BLR by major banks, around 25 basis points. This move would reduce savings, encourage spending and increase borrowing. The Employment Provident Fund (EPF) has cut the employee contribution from 11% to 7% in early March 2020. Once again, this move by EPF increases Malaysian's disposable income to encourage spending and boost economic growth.

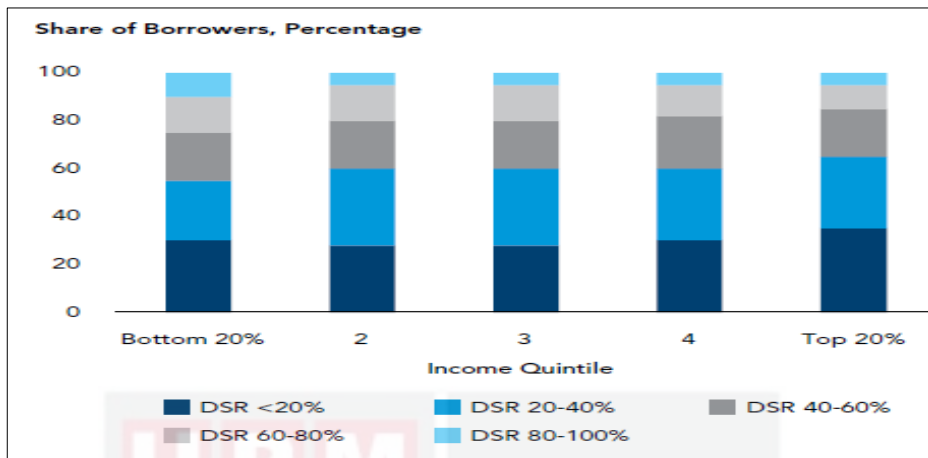


Figure 1.5 : Debt Service Ratio (DSR) and Income Group
(Source: Bank Negara Malaysia, 2019)

Lower-income borrowers have high debt service ratios, leaving lesser room for saving or unexpected expenditure (Figure 1.5). Thus, during an unexpected event in a person's life, lower saving would lead them into financial fragility, eventually leading them into bankruptcy. It is more apparent among the younger age group between the age of 20 - 29; they are unable to pay RM 1,000 for emergency use, unable to pay RM 2,500 medical bills or unable to cover three month's expenses if been retrenched (Figure 1.6) where half of the Malaysian working adult lack financial resilience, especially among the younger generation.

1.3.2 Financial Fragility and Bankruptcy Faced by Malaysians

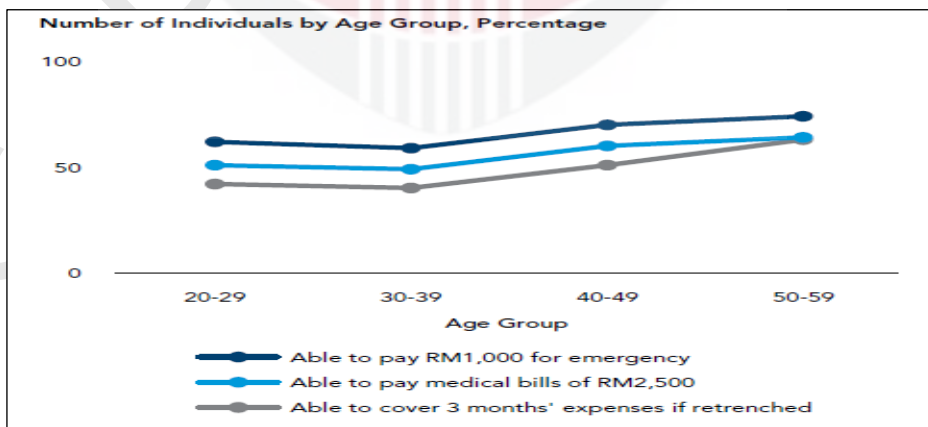


Figure 1.6 : Financial Resilience of Malaysian Working Adult
(Source: Bank Negara Malaysia, 2019)

The financial difficulty faced by Malaysian is due to their decision to attain debt beyond their repayment capabilities (i.e., from payday loan providers). Thus, this excessive attainment of loan beyond one's repayment capability would lead an individual into insolvency. According to the Malaysian Department of Insolvency, the number of bankruptcy cases has increased due to motor vehicle financings, followed by personal financing and credit card usage (Figure 1.7). Apart from that, most households from the lower-income group in Malaysia are found to own a motor vehicle loan. The households are found to resort to the usage of credit cards to maintain a higher living standard. However, this high living standard is found to only short-lived. According to CompareHero.my (2019), even with an annual income of RM24,000, an individual can obtain approval for a credit card.

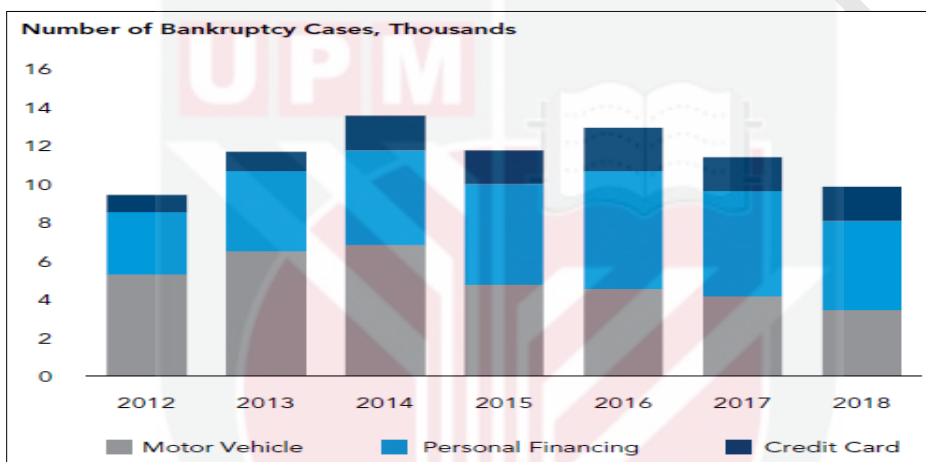


Figure 1.7 : The Number of Bankruptcy Cases Due to Motor Vehicle, Personal Financing, Credit Card
(Source: Bank Negara Malaysia, 2019)

Thus, with a credit card, an individual would face the challenges of overspending and poor debt management. The defaults on motor vehicle and personal financing loans account for almost half of the total bankruptcy cases or 49 per cent in 2018. The bankruptcy cases among 25-34 years old are on the rise, where 60 per cent of the bankrupt borrowers are from 25 and 44 years old. Thus, according to the Malaysian Department of Insolvency, millennials' spending beyond their income can be detrimental and lasting if they continue to lack financial knowledge and money management skills (Figure 1.8).

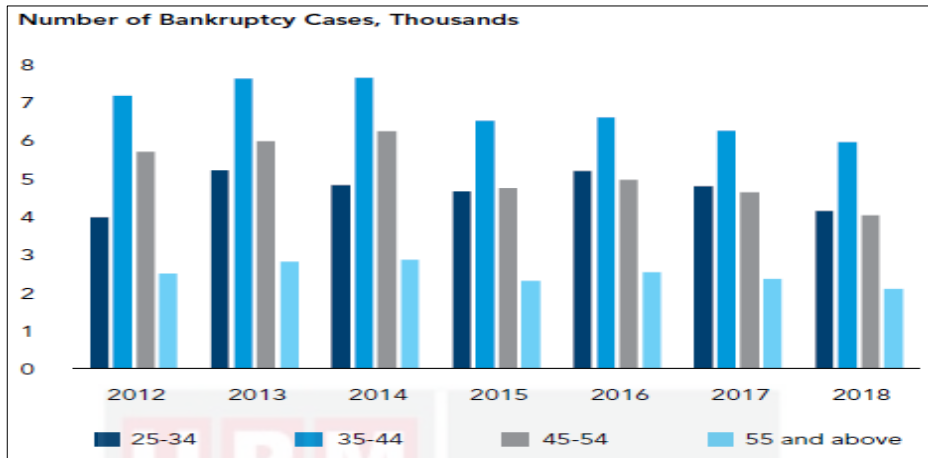


Figure 1.8 : The Number of Bankruptcy Cases in the Age Group
 (Source: Bank Negara Malaysia, 2019)

However, the strain in an individual's ability to service their debt is generally debatable since debts could be eventually repaid after a struggle. However, an individual has less control of their income, failing to engage their money to meaningful use (Lea et al., 1995). Eventually, individuals would be prone to engage themselves in a debt-roll-over by repaying their debt whenever essentially required or otherwise avoiding repayment. However, an individual's failure to comprehend the consequence of their behaviour would cause their debt to accumulate substantially. Since the late payment charges would be accounted for and interest rate charges by the banks would be hiked, it increases the total debt. There is an apparent possibility of an increase in their debt accumulation due to the decision to repay later than the due repayment date; it could be viewed from the perspective of an individual's irrational behaviour. This irrational behaviour can be derived from psychological and sociological factors. Apart from that, economic factors would also influence individuals to accumulate further debt, even after logically knowing that they are highly indebted.

1.3.3 Household Disposable Income and Current Financial Situation

The household to disposable income in Malaysia is at 150 per cent, relatively high compared to other developed or developing countries. In addition to that, Malaysia's interest rate is also significantly higher when compared to other countries experiencing similar situations of high household debt.

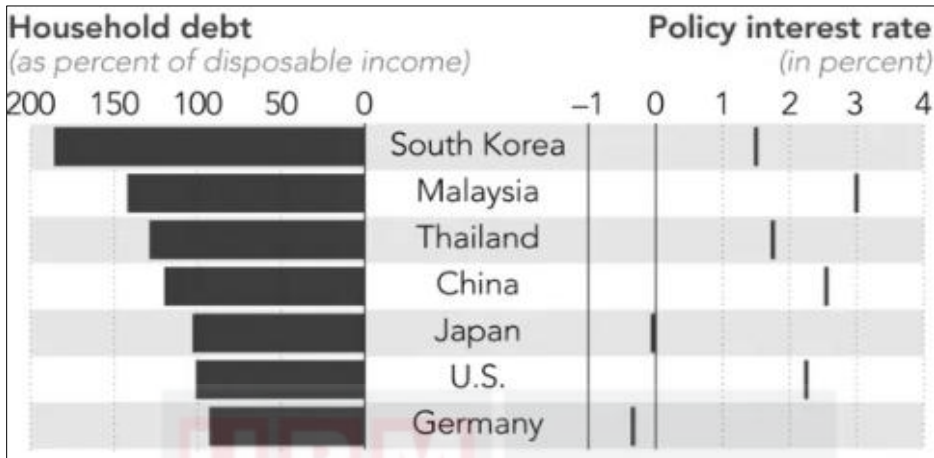


Figure 1.9 : Household Debt to the Disposable Income of 2018

(Source: International Monetary Fund, 2019)

Thus, household debt to disposable income is relatively higher when compared to a few developed nations (Figure 1.9), which leaves a Malaysian working adult at a higher risk of financial instability during an unexpected financial shock in their lives. It is apparent where the household debt to GDP in Malaysia has seen a significant rise from 2008 to early 2019 doubled from 44 per cent to 83 per cent (Figure 1.1).

The debt to service ratio among lower to middle-income individuals is found to be above 30 to 40 per cent (Figure 1.6). The finance rule of thumb states the acceptable level of debt service ratio is at 30 per cent; failing which it would be deemed to be unacceptable (i.e. one-third of a household income is used to pay off debt which comprises of principal and interest) (CompareHero.my, 2019). Therefore, it indicates that individuals are spending more than half of their income to service or repay their debt. Consequently, spending's related to variable expenditure (i.e. food, transportation and emergencies) would be affected.

It can be further directed towards a situation where, if a family unexpectedly loses its monthly income due to (i.e. unemployment, health issues and family problems), issues would arise on their inability to continue or sustain themselves with adequate necessities. The issues of bankruptcy are very prevalent among the working adults of Malaysian. They can be backed with statistics evidence that shows an alarming rate of 24,953 individuals below thirty-five are declaring bankruptcy (Carvalho & Hamdan, 2015). The possibility of the default (i.e., bankruptcy) would cause inevitability rise, since their humans' priority, such as basic essential, would be put first during a sudden adverse financial shock. The current economic downturn experienced in Malaysia does not help either; this has further raised concern on an individual ability to obtain employment and salary rise; thus, leading an individual with financial issues to further financial

constraints or 'financial shock. Next, the Malaysian economy scenarios have been detailed out.

The Malaysian economy is experiencing slower growth, which is a 4.4 per cent negative in Q3 2019, mainly due to the increase in the federal debt and the decrease in government revenues. These scenarios are unfavourable to the current increase in household debt. Thus, Malaysia needs to preserve fiscal space (i.e. government budget) to mitigate the impact of any negative shock on the economy. In other words, as suggested by the World Bank [WB] (2019) in its report on Malaysia Economic outlook, stated that the current tax rate could be increased to help the government both increase revenues and improve redistribution. Apart from the local economic downturn, global economics is also affected due to the current novel coronavirus (i.e. COVID-19). The tourism industry in Malaysia and around the world is in decline (Kanyakumari, 2020). WB (2019) report suggested that the lower-income group would be affected significantly due to the worsening macroeconomic conditions in Malaysia (i.e. economic), where the inflation rate of a product contributed to the lower purchasing power of Malaysian. The headline inflation rate increased to 1.3 per cent in Q3 2019 and a 0.6 per cent increase in Q2 2019, reflecting a dissipating impact of the zeroisation of Good and Service Tax (GST).

Additional to economic factors, the influences of various other elements (i.e. psychological and sociological) would further stimulate the rise in an individual's debt level. As such, it could further worsen the financial situations of Malaysian. Similarly, concerns with the impact of macroeconomic factors and their influence on Malaysia's high level of debt is unavoidable since the household debt to GDP of Malaysia is relatively high. Although just being a developing country, Malaysia has ascertained a similar debt level to those in developed countries such as the United States and the United Kingdom, according to Tan (2015). Thus, these situations further intensify the question regarding Malaysian's ability in servicing their financings during a hard economic time. Therefore, issues on the sustainability of personal debts in Malaysia is an important matter to be addressed. Hence, the evolving phase of the current issues on the sustainability of debts is obviously due to the rise in bankruptcy among young working adults in Malaysia (Arana, 2016). It was further specified that excessive debt accumulation issues are mainly due to individuals' irrational behaviour or psychological factors (i.e. owing to adverse financial management). Thus, to fully reason out their behaviour and economic influences towards consumers' indebtedness and propensity to over-indebtedness. It is crucial to explore factors that could contribute to an individual subjective propensity to accumulate debt, resulting in consumers' being overly indebted. Thus, it can be fully comprehended that the three main factors can influence Malaysians propensity to be over-indebted (Betti et al., 2007).

Moreover, the need for such understanding has received significant public attention, especially among Malaysia's policymakers. As such, this study could bring relevance to the nation's benefit. On the following note, the issues faced among Malaysians on the studied antecedence is further explored.

1.4 Consequences or Implication of Excessive Debt Attainment (i.e. Over-Indebtedness)

The engagement of public debt in moderation does fuel economic growth, apart from providing an individual with the opportunity to smoothen consumption over their lifetime. However, the ramification of a high household to GDP creates a high risk to the financial sector. Thus, according to (Lombardi et al., 2017), the threshold of 80 per cent of the household to GDP would bring disfavour to economic growth. As the debt levels rise, the risk associated is that a debtor's ability to service their financings becomes increasingly sensitive to a drop in household income or a hike in the interest rate. A highly indebted borrower can be regarded as not creditworthy in a mild financial shock. This situation intensifies, apart from other factors, mainly due to sudden unemployment or medical issues. Thus, this would result in the default of credit to the financial sector. The halt in debt repayment intensifies the risk of a financial credit crunch, which bring to a similar situation as America in 2008. In addition to the higher risk of fragility in the financial sectors, the higher household to GDP also reduces an individuals' lending ability, consumption and opportunity to invest. The principles were when high defaulters halt their spending. It can be retaliated by the spending of a low indebted individual in tangent to finding by Eggertson & Krugman (2011) asymmetric consumption pattern is apparent among both.

The consequences of a higher debt to an individual can be reinforced from the earlier mentioned, which is the reduction in lending ability, consumption ability and investment opportunity. Thus, each of these mentioned reduction effects dearly onto an individuals' financial position, which would be detailed out. Firstly, the reduction on leading ability remotes a consumer of the opportunity to a healthy debt that could be required to increase their net worth, such as mortgage financings. It is due to the apparent anticipation of an appreciation of property prices in the near future. Thus, purchases at an earlier time frame are more desirable than later. Secondly, debt affects the ability to utilise their income towards purchasing according to their desired and current need since their future income is tied up with current debt. Eventually, it will dampen their ability to invest in a favourable investment vehicle that provides a potential for an increase in higher net wealth.

To conclude on the ramification of household debt to GDP, it would result in a macroeconomic and financial stability risk. An individual with a higher debt burden is found to have a lower disposable income. The lower income decreases the growth of consumption and investment into real estate. It was justified as Malaysia's housing market has experienced lower demand in recent years (Ong, 2018). Lower demand for housing assets lowers growth in house price. The house price index in Malaysia is experiencing a detrimental growth pace in Q3 2019 (i.e. negative 0.910%) (Census and Economic Information Center [CEICDATA], 2020). The elevated household debt increases the default rates of households and further impacting financial soundness, which lowers the ability to save for the future. Thus, it is essential to identify empirically the important factors that cause an individual to be overly indebted in Malaysia, which would be fulfilled through this study.

1.5 Propensity to Over-Indebtedness among Malaysians

The over-indebtedness among Malaysian is empirically and statistically evident; in a survey by the Federation of Malaysian Consumer Association [FOMCA] (2011), on 1,000 young Malaysian working adults, 37 per cent are found to be living beyond their ability, they also found 72% of individuals below 40 years old have no retirement plans. Additionally, the report stated that 47% of these young employees use 30% of their gross income to repay monthly debt payments. Next, 47 per cent of them were found to use one-third of their income to settle debts (Adzis et al., 2017). The report by FOMCA (2011) also indicated that study loans are the factor that leads an individual into debt before being employed. More than one million students pursue tertiary education in Malaysia (The Ministry of Higher Education [MOHE], 2019). However, due to the high cost of tertiary education, most Malaysians are using credit financing.

For example, in the form of a government study loan (i.e. 'National Higher Education Fund Corporation'; PTPTN) or obtain study loans from various financial institutions to finance their education. The statistics from PTPTN clearly shows that individuals with such financings are undergoing problems in repaying their loans (Daim & Yusof, 2019). The outstanding student loan would amount to about 50 billion in 2014, represents 9% of the national debt level (Neng, 2014). In a survey by Idres et al. (2019), students reported feeling unsatisfied about their loan repayment and stated that they would borrow a lesser amount given an opportunity. It points out that students' lack awareness about their study loan during the attainment of the loan. There is considerable empirical evidence that suggests a lack of awareness are the consequences of high financial debt attainment leading Malaysian's into bankruptcy. Bankruptcy does not merely indicate (i.e. bankrupt person not being able to attain financing for the next five years but also would be restrained from leaving the country within the stipulated period). However, it would also mean that difficulty to credit attainment in the further, necessary for their betterment in life, such as (i.e. home financings).

Additionally, the implementation of GST in April 2015 raised Malaysians' living cost, justified by the rise in the inflation rate. However, due to the zeroisation of GST, which took place in 2018, the inflation rate is currently in control. According to Chin (2018), the rise in inflation been caused by the hike in the global fuel cost. Furthermore, Malaysia's annual GDP growth rate is current at a downwards trend at 5.6 per cent to 4.2 per cent from 2015 to 2016 and rose to 6.5% in 2017 (BNM, 2018). According to the Department of Statistics Malaysia [DOS] (2017), although GDP has fallen, consumer spending has increased from a record low of 56,768 MYR Million in 2005 to 144,254 MYR Million in the third quarter of 2015. The statistical figure on consumer spending hike further acts as an indicator of Malaysians' worrying consumption habits.

This thesis work would focus on economic, psychological and sociological factors. According to the theory of Life-Cycle Permanent Income theory (LC-PI) by Friedman, 1957 and supported with empirical evidence by Katona (1975), the origins of credit issue are surrounding factors, such as economic and irrational consumption decision-making of an individual. Additionally, according to the theory of Behaviour Economic Theory

(BET) and supported with empirical evidence by Garoarsdottir & Dittmar (2012), consumption habits of consumers could be associated with their psychological and sociological behaviour that would influence their identity, relationships with others and negotiation attitude (i.e. exchange of materials in the form of goods and money). Thus, this indicates that psychological and sociological factors influence consumer's consumption decisions in addition to economic factors. Therefore, this study's motivation is to grasp the essential elements that would lead an individual into the propensity to accumulate debt by focusing on economic, psychological, sociological factors and consumers' indebtedness influence an individual propensity to be over-indebted. Thus, this study could help aid in curbing the further rise of over-indebted Malaysians through awareness creations. The specific problem of this study is stated in the following section.

1.6 Problem Statement

The consumption of debt is typical in the present time. Credit facilities' attainment is at ease due to the financial intermediaries' irresponsible financing practices. Additionally, an individual's irrational behaviour increases their propensity to be indebted. It ultimately leads them towards attaining an unmanageable amount of debt known as over-indebtedness by researchers from the field of personal insolvencies. Statistically, household debt in Malaysia raised from the year 2008 during the global financial crisis, after which the household debt among Malaysians has always been on a high rise. The rise in household debt is due to various external (i.e. economic) and internal factors (i.e. psychological and sociological). For instance, in the year 2019, Malaysia household debt to GDP was at 82.2 per cent, setting itself to be higher than several high-income nations, such as the United States at 75 per cent and Japan at 58.2 per cent (Dhesi, 2019). The household debt to income ratio of Malaysia in 2015 is at 146 per cent exceeding the ratio of developed countries, such as the United States, which is at 99 per cent and the United Kingdom, which is at 133 per cent. The high debt to income ratio indicates a significant part of an individual's income is channelled to servicing their debt, leaving a lesser amount for daily expenditures. Which indicates they are at a higher risk of beginning default in the event of adverse financial shock. Kok (2016) states that the average 80 per cent of income is used to pay the debt, which indicates Malaysians are into a financial trap. According to BNM (Central Bank of Malaysia), the household debt to GDP of Malaysia has risen from 87.5% in June 2020 to 93.3% as of December 2020, when it is compared to other developing countries in this region such as Singapore, Indonesia, Thailand and the household debt to GDP was at 65%, 10.4% and 79% respectively (Zainul, 2021). Although there is no specific indication stating the criterion for the worst percentage of household debt to GDP; however, as a benchmark before the economic downturn in the USA, its' household debt to GDP rose to a peak of 94% from 2008 to 2009 during the economic recession, where many households faced financial frugality in fulfilling their mortgage repayments (Yellen, 2009). Thus, this indicates the debt level of Malaysians has raised concern and its need to address intensifies.

Malaysia's government has some active attempts to engage these individuals with higher debt through debt counselling and management, "Credit Counselling and Debt Management Agency" (AKPK). The purpose of this agency is to consolidate and

restructure debt. Despite the agency's presence, there are still many bankruptcy issues and high personal debt accumulation. Thus, the presence of this agency has yet to affect the personal debt crisis in Malaysia significantly. It coincides with the argument by Benjamin (2010) that the problem of personal debts cannot be solved solely by restructuring debt and rescheduling of debt. However, it may require a reduction of debt obligations. The reduction of debt obligations would be influenced by consumers' desires and intentions to accumulate or de-cumulate debt relevant to consumer psychological and sociological factors. Over-indebted Malaysia issues bring relevance to various sectors that rely on a consumer's consumption through credit utilisation. Therefore, the failure to address this issue affects economic growth. The high household debt indicates that lesser Malaysians can afford to purchase real estate, motor vehicle, etc. Thus, consumer demand is impacted, leading to slower economic growth. Apart from that, higher debt consumption among Malaysians lands banks at higher credit risk; during a sudden adverse economic event, such as unemployment and illness, the default risk intensifies. Thus, during adverse economic situations, Malaysian who are highly indebted undergoes financial stress, which ultimately leads to the inability to service their debt repayments. Upon reviewing various previous research works, this study would comprehend that economic, psychological and sociological factors and consumers' indebtedness influence consumers' propensity to over-indebtedness.

As per the chronology, the research objective, economic factor, and relevance to debt accumulation are highlighted. The economic factor is defined as income 'shock' and consumption 'shock'. The word 'shock' is an unexpected adverse event in an individual's life, such as job loss, illness and death, separations and significant unexpected expenses, which indirectly constitutes higher financial risk. Therefore, it would financially distress the highly indebted Malaysian. More specifically, on the issue of job loss in Malaysia, the unemployment rate here is between 3% - 3.5% and individuals aged 18-29 contributes to about 61% of the overall unemployment (Ibrahim & Mahyuddin, 2017). The job loss figure correlates to the rise in the retrenchment rate from 2015 (i.e. 20,000 employees) to 2017 (i.e. 37,699 employee), which translates to an 89 per cent rise; as such, the figure in 2018 is expected to rise (Sivanandam, 2017).

Moreover, with high household debt, the retrenchment rate increased to the higher risk of a financial shock, and individuals would be driven into high indebtedness. Corresponding to this issue, Malaysia's government has implemented the Employment Insurance Scheme (EIS) in January 2018, which protects the individual in the event of retrenchment. However, the coverage is only for six months at a reducing percentage of income. According to D'Alessio & Lezzi (2013), the increase in medical care cost and the unexpected change in the family structure would raise the cost of debt. Parallel to that, empirically, according to Shamasundari (2016), based on the statistic adapted from AKPK in 2015, 14.3% of the registered cases of over-indebtedness is due to a high medical bill; however, with adequate insurance coverage, such situation can be avoided. According to the president of the Life Insurance Association of Malaysia (LIAM), Toi See Jong, every five out of ten Malaysians do not have life insurance and are inadequately insured (Chin, 2016).

Moreover, most Malaysians are currently only equipped with a primary Mortgage Reducing Term Assurance (MRTA) which does not cover critical illness and covers death benefits. Thus, it practically means that most Malaysians are not appropriately prepared to overcome situations from a sudden financial shock through illness or unemployment to cover for the financial obligations they are tied up. Thus, higher employment and medical bills contribute to consumers' higher propensity to be over-indebted due to repayment issues, leading to financial default. Addressing this problem will have practical and theoretical benefits for Malaysia and further understand these widespread debt issues.

On to the second and third objective of the study, the essential issues surrounding psychological and sociological factors detailed. According to Reijman (2016), only thirty-six per cent of Malaysians are financially literate; this is from the S&P Global Literacy Financial with 59% in developed countries (Klapper et al., 2014). Furthermore, the European Union Commission revealed that the main reason for a consumer to be over-indebted is their inability to comprehend information in a financial product. Therefore, there is a high tendency of Malaysian to have difficulties in comprehending a financial product's information, which would adversely influence their debt accumulation level. Apart from financial literacy, numerous other psychological and sociological factors would influence an individuals' propensity to be over-indebted. The psychological and sociological factors are essential to understand consumers' consumption decision-making (Benjamin, 2010). Research on the reasons for and consequences of over-indebtedness has focused on objective measures of financial literacy and economic factors, but there has been little work exploring the working adults' subjective propensity to be over-indebted. In addition to that, most of the research has singularly viewed selected psychological and sociological factors on consumers' propensity to be over-indebted, but this research has viewed the influence of psychological, sociological and economic factors along with indebtedness on consumers' propensity to be over-indebtedness.

Economic, psychological, and sociological factors are not exclusive; various research works have conducted studies about this subject. One such is a preliminary study by Katona (1975), which had indicated that credit issues are on the rise due to psychological and sociological factors apart from economic factors. According to Nagy & Obenberger (1994), factors that influence financial decision making were categorised into two main areas, which are internal factors or active factors (i.e. sociological and psychological factors); and external factors or passive factors (i.e. economic factor). However, numerous past studies have independently reported internal and external factors and their influence on individuals' consumer decision-making. However, to the best of the researchers' knowledge, only financial literacy was significantly focused (Agarwal et al., 2014; Agnew & Harrison, 2015; Cakarnis & D'Alessandro, 2015; Jonubi & Abad, 2013).

Next, on to the fourth objective, the majority of researchers focus on the relations between internal and external factors leading towards individual's financial decision making with regards to the attainment of credit cards, which would eventually lead the consumer into debt (Cakarnis & D'Alessandro, 2015; Scholnick, 2013; Baumann et al.,

2013). Furthermore, this study identified that lack of research was conducted on the influence of financial decision-making due to the attainment of other types of loans (i.e. structured and unstructured), which would lead individuals to accumulate an excessive amount of debt. As such, this study is interested in viewing debt repayment obligations termed as indebtedness. Motivated from the study by Othman et al. (2015), which revealed that vehicle loan, business loan, personal loan and guarantor is ranked as the three loans or financial debt that as highly lead individuals into bankruptcy in Malaysia. Debt accumulation negatively affects consumers' financial freedom, owing to the current higher debt to income ratio suffered by Malaysian. Thus, when individuals are not engaging in fair debt repayment obligation practices, they are likely to experience financial defaults—as such, addressing this problem will have benefits for Malaysian to understand the influence of indebtedness on consumers' propensity to be over-indebted.

The fifth objective, to the best of researchers' knowledge, there are scarce amount of research been conducted with regards to the mediating effect of indebtedness between the proposed antecedents in identifying its influence on the debt consumption decision-making (i.e. propensity to be over-indebtedness) among Malaysians. Greenberg (1980) states that indebtedness plays a functional role as a mediator for psychological and sociological antecedents. This study is useful to utilise indebtedness to understand social interaction. The research states that cognitive restructuring can reduce indebtedness. Thus, consumers' economic, psychological and sociological association with debt consumption decision-making (i.e. propensity to over-indebtedness) can be determine been mediated by indebtedness. To identify the influence of people being indebted (i.e. obligated to debt repayments), maintaining their high-level consumption leads them to be overly indebted. By addressing this problem, Malaysian will understand that economic, psychological, and sociological factors would greatly influence their decision to continue high consumption, leading them to be over-indebted. Muzafari et al. (2016) found indebtedness to mediate between materialistic and financial risk. Focusing on additional psychological and economical, and sociological antecedence can help develop a more robust understanding of over-indebtedness causes.

To conclude, although institutions were set up to address the issues related to bankruptcy, they address the aftermath of being highly in debt. However, there is numerous antecedence to be addressed on cause associated with the excessive debt accumulation decision-making (i.e. propensity to over-indebtedness). Santos & Abreu (2013) states that human beings' real circumstance and characteristic should be observed apart from only focusing on providing financial education to individuals with existing debt. Thus, through this thesis, the researcher aims to fill in the lack of knowledge on the influence of other economic, psychological, sociological factors and consumers' indebtedness which leads individuals decision to accumulate high levels of debt (propensity to over-indebtedness) from the local Malaysian context. The earlier is derived through the application of three main theories Life-Cycle Permanent Income Theory of Consumption (LC-PI) (i.e. economic factor), Behavioural Economic Theory (BET) (i.e. psychological and sociological factor) and Theory of Indebtedness (i.e. consumers' indebtedness) which would be detailed out in Chapter 2 of this thesis. Next to the research questions, objectives, etc., are detailed out.

1.7 Research Question

1. What influence does economic factor have on consumers' propensity to over-indebtedness?
2. What influence does psychological factor have on consumers' propensity to over-indebtedness?
3. What influence does and sociological factor have on consumers' propensity to over-indebtedness?
4. What influence does consumers' indebtedness have on consumers' propensity to over-indebtedness?
5. What is the mediating role of consumers' indebtedness on the relationship between economic, psychological and sociological factors have on consumers' propensity to over-indebtedness?

1.8 Research Objectives

There are one general and two specific objectives in this research in order to gauge consumers' over-indebtedness among Malaysians.

a. General Objective

In general, this study is to determine the influence of economic, psychological and sociological factors along with indebtedness on consumers' propensity to over-indebtedness, among the consumers with existing debt in Malaysia.

b. Specific Objective

This study as four specific objectives, it is illustrated as below:

1. To analyze the relationship between economic factor (i.e. income shock and consumption shock) and consumers' propensity to over-indebtedness.
2. To examine the relationship between psychological factor (i.e. emotion, over-confidence, myopia, attitude towards money, financial literacy, compulsive consumption) and consumers' propensity to over-indebtedness.
3. To examine the relationship between sociological factors and consumers' propensity to over-indebtedness.
4. To determine the relationship between consumers' indebtedness and consumers' propensity to over-indebtedness.

5. To investigate the relationship between economic, psychological and sociological factors have on consumers' propensity to over-indebtedness being mediated by consumers' indebtedness.

1.9 Significant of Research

1.9.1 Practical Aspect

In anchoring into the practical aspect of this thesis, it would foremost help identify perhaps the main contributing factors that directed Malaysian consumers into accumulating high levels of debt. Moreover, through the identification of these factors, therefore, it would help Malaysian credit counselling and debt management agency AKPK in devising a more suitable method to reduce the level of debt among individuals via the comprehension of factors, such as economic, psychological and sociological, which has been classified as leading effects of debt accumulation among consumers. Furthermore, this study's finding perhaps can be generalised across other Asian countries with similar circumstances as Malaysia. Subsequently, government policy creators could use this research to equip themselves with knowledge of the main contributing factor that leads individuals to accumulate high levels of debt; hence, through such policies, it could help reduce the high propensity to over-indebtedness altogether in the future.

1.9.2 Theoretical Aspect

This study aims to develop a comprehensive theoretical model based on the life-cycle theory of consumption and behavioural economic theory (i.e. behavioural decision-making and prospect theory) to examine the influence of consumer decision-making, leading to consumers' propensity to over-indebtedness. Moreover, to indicate the empirical research relevant to this research area, it is primarily issued in economic psychology, consumer behaviour, social issues, and financial sustainability. As such, through this thesis work, the factors which perhaps would be an influence on consumer propensity to over-indebtedness would be further identified. Moreover, this study will also be analysing the mediating role of consumers' indebtedness on economic, psychological, and sociological elements, which was previously identified to be a significant influence on consumers' propensity to over-indebtedness. Apart from that, this study would also differ in applying inconstant elements of the earlier mentioned factors, which would be further clarified in chapter 2 discussions. Furthermore, this study targeted geographic region in South-East Asia, specifically Malaysia, and due to the scarcity of good exploration of the earlier mentioned elements and issues in the regional context. Therefore, this study would be creating a new paradigm, which further can be expanded by the future researcher.

1.10 Scope of Studies

This study would be purposeful for various targeted groups in Malaysia; the scope of this study is detailed out as follows. This study's primary emphasis would be to measure the propensity towards over-indebtedness among working adults in Malaysia, specifically among private-sector employees who have attained credit financing. Moreover, employees within the private sectors generally experience higher uncertainty in term of job security and are prone to experience earnings fluctuation due to the constant hike in inflation rate yearly. Since the income plan devised for the private sector employees (i.e. education) are not sure to undergo a salary raise yearly. As such, along with the inflation rate on consumed items, the reduction of purchasing power is generally experienced.

Moreover, to add on, many Malaysians situated in the urban region are prone to undertake more than one job (i.e. part-time). To make matters worse, many private sectors generally forbid their employees to do so. Thus, it would be interesting to understand the elements (i.e. economic, psychological, sociological and consumers' indebtedness) influence consumers' propensity to over-indebtedness. The main emphasis in this study's scope is the working adults in Malaysia (i.e. private sector employees) since the higher credit facility is available to them. Additionally, they are also prone to experience financial uncertainties from unexpected life events mentioned earlier. Middle-aged individuals are prone to undertake credit to smoothen their consumption, which accords to the life-cycle permanent income consumption theory, target population would be the most suitable to be studied.

Moreover, to recapitulate due to the earlier mentioned details, individuals' perhaps can be more prone to experience a higher amount of debt accumulations, and they would be subjected to undertake further credit financing, coupled with the irresponsible lending practices by credit providers, as mentioned in the earlier discussions would push individuals into bankruptcy. Apart from that, generally the aftermath of credit attainment, consumers are expected to experience an inability to control their monthly income since a better part of their income is used to service debts, which they have obtained earlier. Individuals are pushed to a situation to obtain credits further to facilitate their existing credits, which creates a challenging situation. Eventually, they would be siphoned into a 'debt trap'.

Consequently, in the long-term, this would limit individuals' opportunity to save up from their monthly income, which could be used for their future expenditures. As such, over-indebtedness (i.e. high debt accumulation) could eventually reduce the long run life quality of people subjected to it. Therefore, due to its' condition among the vast majority of Malaysians, it should be an essential matter of exploration to help enhance peoples' comprehension of debt. It renders as a guide for the policymakers in Malaysia.

1.11 Research Model

This study uses a primary data collection method, where a questionnaire is designed, which is adopted and adapted from the past literature. The SMART PLS 3.0 software is used to analyse the data collected.

1.12 Summary

To recapitulate, through this chapter, debt financing was introduced from both the global and local perspectives. In the problem statement, debt financing issues based on Malaysia's current happenings and their importance in this study were highlighted. Therefore, important research questions, objectives, and significances to the relevant entities (i.e. practically and theoretically) are put forth from the problem. This study is expected to determine the main factors (i.e. economic, psychological, sociological factors, consumers' indebtedness) that lead an individual to the propensity to over-indebtedness. Additionally, this study is expected to determine the mediator role of consumers' indebtedness between the exogenous and endogenous variables. Moving on to the writing of chapter two, the applicable theories, conceptual framework, and past empirical evidence will be developed.

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