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**THE INFLUENCE OF FINANCIAL LITERACY AND
ISLAMIC FINANCE AWARENESS ON FINANCIAL
BEHAVIOUR: STUDENTS` PERSPECTIVE**

BY

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**Dissertation Submitted to
Othman Yeop Abdullah Graduate School of Business,
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in Partial Fulfilment of the Requirement
for the Master of Science (International Accounting)**

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Abstract

This study aims to examine the influence of financial literacy and Islamic finance awareness on financial behaviour among Kolej MARA Kuala Nerang (KMKN) students. A sample of 350 active students was selected to complete an internet survey, consisting of questions on students' demographic background, financial literacy, Islamic finance awareness and financial behaviour. This study hypothesises financial literacy and Islamic finance awareness significantly influence financial behaviour. The findings show that on average, 48% of the students answered the questions on financial literacy correctly. In addition, they are also aware and have the knowledge about Islamic finance but with limited ability to explain the concept. Further, students' financial behaviour is found to be at moderate level. Regression analysis shows Islamic finance awareness positively and significantly influence students' financial behaviour. This finding may assist policymakers in developing programmes that inculcate Islamic values to encourage good financial behaviour.

Keywords: financial literacy, Islamic finance awareness, financial behaviour



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Abstrak

Kajian ini bertujuan untuk mengkaji pengaruh celik kewangan dan kesedaran kewangan Islam pada tingkah laku kewangan dalam kalangan pelajar Kolej MARA Kuala Nerang (KMKN). Sampel kajian terdiri daripada 350 orang pelajar aktif yang telah dipilih untuk melengkapkan kaji selidik atas talian. Kaji selidik terdiri daripada soalan-soalan mengenai latar belakang demografi pelajar, celik kewangan, kesedaran kewangan Islam dan tingkah laku kewangan. Kajian ini menjangkakan celik kewangan dan kesedaran kewangan Islam dengan ketara mempengaruhi tingkah laku kewangan dan hasil kajian menunjukkan bahawa secara purata, 48% pelajar menjawab soalan-soalan celik kewangan dengan betul. Di samping itu, mereka juga menyedari dan mempunyai pengetahuan mengenai istilah dalam kewangan Islam tetapi mempunyai keupayaan yang terhad untuk menjelaskan istilah tersebut. Tingkah laku kewangan pelajar juga didapati berada pada tahap sederhana. Analisis regresi menunjukkan kesedaran kewangan Islam dengan ketara mempengaruhi tingkah laku kewangan pelajar secara positif. Hasil dapatan mungkin boleh membantu pembuat polisi dalam membangunkan program-program yang menerapkan nilai Islam bagi mendorong tingkah laku kewangan yang baik. .

Kata kunci: celik kewangan, kesedaran kewangan Islam, tingkah laku kewangan



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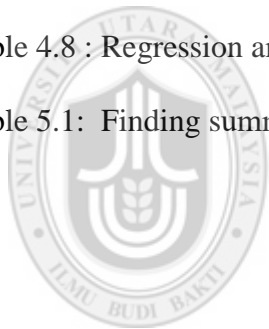
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List of Abbreviations

BNM	Bank Negara Malaysia
CRRC	Consumer Research and Resource Centre
PTPTN	Perbadanan Tabung Pendidikan Tinggi Nasional
CCDMA	Credit Counselling and Debt Management Agency
TPB	Theory of Planned Behaviour
TRA	Theory of Reasoned Action
KMKN	Kolej MARA Kuala Nerang
AKPK	Agensi Kaunseling dan Pengurusan Kredit
ERA	Education and Research Association
MARA	Majlis Amanah Rakyat
NGOs	Non-Governmental Organizations
PSD	Public Service Department
OECD	Organisation for Economic Co-operation and Development

Chapter 1: Introduction

1.1 Introduction

The financial system plays a vital role in any economy. The financial system allows the financial intermediation process that facilitates the flow of funds between savers and borrowers, thus ensuring the efficient allocation of financial resources and encouraging economic growth. Financial stability refers to a situation where the financial intermediation process functions smoothly and there is confidence in the operations of major financial institutions and market economies (BNM, 2016).

Money is a part of the financial system and an asset that plays an important role in daily lives, especially under the current conditions of economic uncertainty. Without money, many necessities of life cannot be fulfilled perfectly. Although there is a saying, ‘money is not everything’, but in reality, almost all dealings require money. In view of the importance of money, it must be managed properly to improve the quality of life.

1.2 Background of the Study

The Education and Research Association for Consumers (ERA Consumer Malaysia) and Consumer Research and Resource Centre (CRRC) have conducted a study on the behaviour and habits of Malaysians with regards to saving and spending; the finding is that younger Malaysian workers do not have enough financial knowledge; some are mired in debt; and some spend in excess of their ability (Raj, Zakaria & Mohd Yusof, 2013).

Zakaria (2012), in his study, stated that knowledge in financial management among Malaysians should be enhanced. This concurs with the findings that the

financial burden of respondents is due to their living beyond their means and not having financial planning. The household debt problem is now a topic of discussion in the mass media, such as the newspapers, television, website, social media and others. The Malaysian Insider on July 9, 2013, in an article titled, "Malaysian Lifestyle - Debt Endless", states that the people have several debt problems, such as housing loan, vehicle hire-purchase, personal loan and credit card loans. Some Malaysians have to do a second job for additional income in order to resolve their debts (Lee, 2013). It shows the increase in household debt is not commensurate with the increase in income. This can affect household spending and sustained economic growth.

Therefore, it is believed that knowledge and financial management skills potentially can help individuals to overcome the burden of debt. Holistic education is very important to educate the young executives and its effective delivery is desperately needed. A comprehensive approach and synergy of all stakeholders, including researchers, non-governmental organisations (NGOs), financial institutions and policymakers, is essential to help create a community of knowledgeable money users (Sabri and MacDonald, 2010).

Ideally, every individual should be a smart planner in terms of using money, be it to spend or to save. Sometimes, items purchased do not reflect one's daily needs. The problem actually stems from confusion in identifying the needed and desired goods. The problem can be reduced and a lot of money can be saved if individuals can distinguish between desire and necessity. The requirements refer to items needed for living and survival, such as food, shelter, transportation and clothing (Amy, 2001). This problem is also faced by the students. Students should

plan their expenses wisely and be aware of their financial behaviour. However, problems often arise because the students are unable to control their spending in a rational manner; they are not prudent and cannot differentiate between their needs and desires. This leads to unnecessary purchases and a drain on their monthly expenses.

There seems to be a great need for financial literacy education among the youth, especially students in Malaysia. Financial planning is one of the most important parts in financial literacy education. In addition, there also seems to be a very strong need for personal financial planning among students. Students should have the skills and knowledge necessary to prepare and implement a plan of their own finances. Financial planning can help explain in detail the financial concepts in ways that students can readily and easily understand. Financial planners, such as government agencies, can promote programmes to cater to students' needs for financial literacy, including education programmes via ongoing campaigns.

It is important to note that significant efforts are being effectively undertaken to assist youth in Malaysia to manage their finances more efficiently during these challenging times. Sabri and MacDonald (2010), in their study, show that Malaysian students are not managing their finances well. They do not have enough knowledge about financial products and financial management and do not have the skills to make sound financial decisions. This gap will certainly have an impact on the daily management of their finances. Similarly, it will affect the ability to save for long-term goals, such as buying a house or bonds. Less efficient financial management can also lead these young adults to enter the workforce early to manage their daily needs, through controlled spending and increased savings and investment to lessen

their debt. The students can become more knowledgeable about financial planning, budget, how to control their actual spending and improve their financial well-being now and in the future.

Financial education delivers students with information and skills to plan and manage their money or allowance which mostly comes from their parents or provided by the government. All these education programmes can help students develop the discipline to save, be prudent and reduce unnecessary spending. This financial management education can help students to use their limited money or what they have and make financial decisions that give value for their money when buying any product; it also can improve their understanding of basic financial information, such as risks and returns as well as more specific information about different types of investments. Without a financial knowledge base, the students may not be able to buy financial products and services they need, or they may have bought a financial product that is not necessary or appropriate.

Most of today's students face financial crisis. Most of them have not enough knowledge on finances and needed exposure to manage their personal finances. Various efforts have been taken by the government through government agencies, such as Agensi Kaunseling dan Pengurusan Kredit (AKPK), Perbadanan Tabung Pendidikan Tinggi Nasional (PTPTN), Majlis Amanah Rakyat (MARA), banks and others, to help improve the financial knowledge among the public, especially students and to increase their awareness and abilities, including knowledge on personal financial planning and financial management. It aims to create awareness about wise spending habits among young people and the importance of sound financial behaviour among students.

1.3 Problem Statement

News Release dated 9 April, published an article by Yuen (2014) entitled, "Bankruptcy cases on the rise in Malaysia"; it mentions that until December 2013, a total of 253,635 bankruptcies was recorded in Malaysia. The number of bankruptcies has been consistently increasing since 2007 due to failure to settle hire purchase of vehicles, inability to control the use of credit cards and to manage outstanding debts, as well as personal loans. What is more worrying is that of the total declared bankruptcies between 2007 and 2013, 1.5% of the individuals involved were aged below 25 years. According to the report, many credit card holders involve young people who use the facility to spend on unnecessary or luxury goods.

The same newspaper's survey reveals consumers who use credit cards tend to spend 17% more than individuals who deal in cash. It is clear that the use of credit cards that is not controlled is very alarming and can destroy the future of the younger generation involved. How do we prepare our future generations to be "financially literate" or "financially fit"? All parties, like parents, educators and the government have to play a key role in this regard. Financial education equips children with specific skills to face the world and to build a brighter financial future. Educators and educational institutions therefore have their own significant roles.

Based on the Official Portal of the Malaysian Department of Insolvency, 2016, the Director General of Insolvency explains that most cases of bankruptcy involving young people are related to the uncontrolled use of credit cards and failure to repay the debt within the prescribed period. In the case of older people, it is related to loans taken for housing, vehicles and businesses. The same website also mention that, there are over 10 million credit card users in this country owing a total of

RM24.4 billion, but only 30% repay in full each month. Statistical calculations indicate if a person has RM1,000 credit card debt and only makes the minimum payment of 5% per month, he or she will take five years and eight months to settle the debt, including interest.

Zainal & Ismail (2012), find that many students face difficulties in repaying not only their education loan, but also other debts that they incur after entering the job market. If more information and knowledge is imparted by all relevant parties to students about financial management, then they will be able to control their finances better, and as a result, have less debt.

Zainal & Ismail (2012), also suggest several ways that can be used to educate students. Students can be enlightened and advised on how to reduce and control spending. They can be shown the credit card statement and given explanation how the interest rate is calculated and the risks if credit card usage is not controlled. They should be made aware of the importance of financial management or behaviour, and the negative consequences, such as bankruptcy declaration if they do not manage personal finances properly. Students also need to understand the purpose of bankruptcy and how it can affect a person's future.

Financial education should be included in the school curriculum from the first year of the child's schooling. The school curriculum should provide children with the knowledge and financial skills and not just focus on passing examinations. Financial management can be considered as a life skill. The approach to delivering these skills should be more interactive and through activities, games, case studies and role play. The emphasis is on learning skills rather than memorising facts to pass examinations.

Financial education can be delivered to all students through informal education. This training can be delivered by government agencies or Non-Governmental Organizations (NGOs). Importantly, each individual must be given the opportunity to understand and learn basic financial skills. To change the current situation and make it better in the future, it must start now with concrete actions. If not, the younger generation will be debt-ridden. Financial literacy must be inculcate in the minds of the younger generation. The issue of bankruptcy among young executives in Malaysia has increased as a result of failure to properly manage their personal finances. Even among students themselves, they often claim that they are facing a shortage of funds despite receiving support from family and MARA or PTPTN. These is because most students cannot distinguish between their needs (need to have) and the need to possess a good (nice to have). Friends and advertisements almost always lead students to use their financial assistance monies to purchase items that are categorised as 'nice to have' such as latest smart phones, motorcycles, cars and clothing. In this regard, even though students received financial aid from PTPTN for example, some of them still ask for extra financial support from their families.

PTPTN is a statutory body responsible for managing the funding of education for students in public higher education institutions and the private sector in Malaysia. It was established under the National Higher Education Fund Corporation 1997 (Act 566) which became effective on July 1, 1997 to replace the role of the Public Service Department (PSD), which previously channelled funding for the education of students. According to a report by the Higher Education Ministry in Utusan Malaysia (24 March 2016), a total of 662.983 PTPTN borrowers have failed to make repayments, involving RM5.4 billion as at 31 December 2015.

For this similar period, as many as 1.88 million borrowers have to repay PTPTN loans totalling of RM15.33 billion. The Ministry of Higher Education expects PTPTN will face a deficit of RM46 billion in 2020 due to the failure of repayment. This expectation is entirely possible if the number of defaulters keeps growing.

Repayment failure is mainly due to the attitude of the borrowers (students). Some students are easily influenced by current lifestyle trends, like the need to own latest gadgets and wear the latest fashion which often times, are unnecessary for students on a limited budget. Some of these gadgets are bought for the purpose of showing off. Such extravagance and unnecessary indulgence will continue to increase and affect the ability to repay the loan if it is left unchecked. Fresh and young employees are the most involved in inefficient financial management, including credit card debt and taking loans from illegal loan sharks. Inefficient personal financial management has been identified as one of the causes of the emergence of social problems. Financial problems have also been reported in Sinar Online dated 23 October, 2015 as one of the main causes for divorce. The collapse of the family in turn can contribute to moral and disciplinary problems, such as truancy among the children, drug abuse and promiscuity. Debt problems also lead to emotional disturbance; those involved cannot concentrate on their work and become depressed because of being sought by loan sharks. There are often blacklisted by financial institutions and cannot apply for loans, eventually leading to being declared a bankrupt. The Central Bank of Malaysia's (BNM) data shows that the number of people declared bankrupt in 2012 was 19,575 cases stemming from failure to pay credit card debt, hire purchase loans, education loans and outstanding bank debt (BNM, 2016).

Legal action cannot totally solve the problems related to inefficient personal financial management. Zakaria & Kannan (2014) state that creating a society which has awareness on the importance of financial and debt management, requires long-term actions, including the introduction of subjects related to personal financial management for students of institutions of higher learning as well as school students. Guidelines related to prudent financial planning, saving habits, managing credit effectively, managing expenses, ethics and responsibilities as a borrower, etc., need to be developed and delivered at least as elective courses in the schools and universities. These efforts will not only be able to produce a knowledgeable generation but help to develop the right attitude in terms of financial planning and management. The people of the future will then face less problems caused by poor financial planning and management. If we can educate the youth in terms of prudent financial management, we will provide them with a strong defence to deal with 'threats' created by advertising and promotion of a life that centres on opulence and unnecessary emphasis on wealth.

Bank institutions, together with various parties, including the government, consumer associations and NGOs have stepped up efforts to create a conducive financial environment, especially among the younger generation, comprising the students. The Credit Counselling and Debt Management Agency (CCDMA) is an agency set up by BNM to provide financial education in addition to financial counselling. The AKPK urges the public to increase their knowledge about financial education, especially when the country is experiencing rising cost of living; this is a way to enable them to manage their personal finances well as reported in Utusan Online dated 14 March, 2014.

In the face of rising prices of goods and services, the AKPK suggests that people in this country have to change the way of shopping and lifestyle towards simplicity by reviewing spending patterns, in addition to austerity to avoid wastage. They need to adjust their expenses accordingly to ensure that they can have extra money and not be involved in debt burden in the long-term. They must manage their daily spending priorities, prepare a list of essential items and goods that are not important and mandatory and set spending limits for purchases to avoid wastage and expenditure caused by lust. Many programmes have been designed by the government, especially for the youth aged between 18 and 30 years, where they are exposed to the skills and knowledge to manage their finances effectively in addition to being provided useful information to encourage prudent money management. Individuals from various backgrounds have benefited from the programmes and have been able to increase their financial knowledge significantly. The government is currently reviewing and adding more programmes to improve the effectiveness, particularly in ensuring the knowledge gained is practiced by students in their daily lives. The Malaysian government, together with BNM and CCDMA, are planning to collaborate with private agencies to deliver programmes in an integrated manner to the targeted groups.

Financial responsibility must begin with children as young as four years old; then the behavioural change can start immediately. Students need to change both attitude and behaviour to avoid bad habits, such as luxurious lifestyle and spending beyond their means, thus resulting in indebtedness. Students must also be encouraged to prepare a budget and spend in accordance with a plan. In brief, to build a better and strong financial position, students must be responsible and have the discipline in and commitment to financial planning. All parties should continue to be committed

in conducting appropriate programmes in order to improve financial education for all segments of society, especially students as well as to provide a more effective deterrent, so that they are more knowledgeable and prudent in their use of money.

The purpose of this study is to examine the influence of students' financial literacy and Islamic finance awareness on students' financial behaviour. This study also attempts to provide evidence on the level of financial literacy among students to benefit parents, as well as to educators, college management and any government agency to enable them to provide relevant programmes to enhance students' level of financial literacy.

1.4 Research Questions

Given the overview of the background of the study and the research problem, there is a need to investigate the factors that influence financial behaviour among students. Hence, the main research questions addressed in this dissertation are:

- a) What is the level of financial literacy, Islamic finance awareness and financial behaviour among KMKN students?
- b) Is there any difference of students' financial behaviour among various KMKN students' demographic background?
- c) Does financial literacy have an influence on financial behaviour of KMKN students?
- d) Does Islamic finance awareness have an influence on financial behaviour of KMKN students?

1.5 Research Objectives

The objective of this study is to investigate the factors that influence students' financial behaviour. Specifically, the objectives are:-

- a) To examine the level of financial literacy, Islamic finance awareness and financial behaviour of KMKN students.
- b) To examine the difference of students' financial behaviour among various demographic backgrounds.
- c) To examine the influence of Islamic finance awareness on financial behaviour of KMKN students.
- d) To examine the influence of financial literacy on financial behaviour among KMKN students.

1.6 Significance of the Study

This study investigates the influence of financial literacy and Islamic finance awareness on the financial behaviour of students. The findings from this study can contribute theoretically and practically to the existing body of knowledge as explained below:

Theoretical Contribution: It is hoped that the findings from this study will add to the emerging literature on financial behaviour, financial literacy and Islamic finance awareness. In addition, this study discovers how students' foresee the importance of financial literacy and their awareness on Islamic finance which may lead to their good financial behaviour. This study also provides fundamental knowledge regarding the significance of religiosity to psychological wellbeing in later life.

