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## The Personal Financial Management among the Loan Applicants in Kuantan, Pahang

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### ABSTRACT

Prior studies have shown that financial management is important in planning and controlling personal financial action. Its influence by knowledge and decision making among the loan applicants. This study investigates the significant relationship of financial management knowledge and decision making on loan applicant financial management actions. The study proposed that the high level of personal financial management contribute the significant relationship towards financial management actions. Data was collected through distribution of questionnaires to 100 of loan applicants in Kuantan, Malaysia. Utilizing the descriptive and regression analysis, the results showed that all the variables studied are at high level. Furthermore, the significant relationship between the variables studied positively contribute to the research model. This study contributes to the understanding of important personal financial management regarding to direct the financial management actions. This indirectly contributes to the goal of the educating people on personal financial management.

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*Keyword: Personal financial management, financial management knowledge, financial management decision making, financial management actions and loan applicant*

### 1.1 Background

Personal financial management is the most important thing to practice in financial planning and controlling wisely. Personal financial have been defined by Madura J (2004) personal financial is the process of planning one's spending, financing and investing so as to optimize individuals or applicants financial situation. Personal financial also have been defined by Osei-Brobie (2010) as personal financial involves how people spend, save, protect and invest their financial resources.

Individuals do have a desire to be wise in managing their daily financial expenses, but only a few achieve that goal. This is because most of individuals use their earnings to buy item that unrelated to the needs of everyday life. The actual problems occur due to from the lack of knowledge in financial management. The problem will be less when individuals are able to develop and practice effective financial management.

Nowadays, many of these problems faced by individuals who have had a career in life. Individuals are aware that they should be wise in planning and manage their financial expenses. However, problems often arise because they cannot control spending habits in excess of their income. This habit will lead to their financial instability and the problems facing the shortage of funds to cover monthly expenses. Credit card ownership and insurance is a must for each individuals also for the family. However, the misuse of credit card is the major problem. Most of them spend more than their financial limit. The interest will be compound to every users or individuals who made late payments. From this matter, individual debts will keep increasing and cause them into serious financial issues. Furthermore, there is the need of an effective financial management. The lack of information about financial management has been ignored. No doubt money is a medium which is very important in our daily lives. But the individuals often make mistakes in managing their money although having a quite lucrative income cannot escape from the problems of financial management.

## 1.2 Problem Statement

The purpose of the study is to determine the level of personal financial management among loan applicant. A total of 24 953 people aged 35 years and under declared bankruptcy since 2010. 107 306 bankruptcy cases recorded between January and April this year according to *Jabatan Insolvensi* (2015). This issue arises after the pre survey has been conducted at several financial and banking institutions around Kuantan. According to pre survey to loan applicant in Kuantan, it is found that 65% of applicants having knowledge about financial management service provided by AKPK. However, most of them (55%) unable to identify the function of financial management. This matter cause 45% of applicants still having difficulties in financial management.

## 1.3 Research Objectives

Generally aims of the study are to determine the personal financial management among the loan applicants in Kuantan, Pahang. Specifically the objectives are as follows:

- 1) To determine the level of personal financial management knowledge, decisions making and actions.
- 2) To determine the relationship between personal financial management knowledge and financial management decision making on financial management actions.

## 1.3 Research Questions

The research questions are as follows:

- 1) What is the level the level of personal financial management knowledge, actions and decisions making?
- 2) What is the relationship between personal financial management knowledge and financial management decision making on financial management actions?

## 1.4 Research Significance and Scope

As a reference, a pre-survey to loan applicants at Kuantan related to financial management show that the education program can help the individual to gain more knowledge and can improve the individual financial management wisely. In a result, this research can attend to help interested parties to understand better about the personal financial management knowledge, decisions making and actions among the individual that can make them realize how the financial management education being very important in daily life. The scopes of research include loan applicants around Kuantan, Pahang at financial and banking institution. Instead of that, this research only takes place and accepts response from individual's loan applicants at Kuantan.

## 2.0 Literature Review

The literature review focused on the level of personal financial management. Useful information about the personal financial management important to loan applicants to understand the issues. Applying the personal financial management among loan applicants will avoid them from financial and debt problem. The high level of personal financial management will help individuals or loan applicants in managing their financial wisely.

### 2.1 Theory

There were two leading professors from Santa Clara University, Meir Statman and Hersh Shefrin, have conducted research in the area of behavioral finance. Statman, (1995) wrote an extensive comparison between the emerging discipline behavioral finance vs. the old school thoughts of "standard finance". Behavior and psychology influence individual investors and portfolio managers regarding the financial decision making process in terms of risk assessment and issues of framing.

### 2.1 General Personal Financial Management Knowledge

Personal financial management knowledge is parts of personal financial management and the most important parts that individuals or loan applicants must understand about it. Loan applicants is the person who enter an agreement to make loan. Financial knowledge have been defined by Garman and Fogue (1999) as knowing the facts and vocabulary necessary to manage one's personal finances successfully. The knowledge of personal financial management is important factors in information processing according to (Liebermann and Flint-Goor, 1996). From the knowledge about personal financial, individuals or loan applicants automatically able to manage and improve their financial. Such as saving account, credit cards and loans, investment and get the benefit from retirement plans, social security, insurance and income tax.

The personal financial management is measured depending on how the individuals or loan applicants manage their financial. It is proven by Mandell, (2004) and Peng, Bartholomae, Fox & Cravener, (2007) explained that results vary depending on how financial knowledge has been measured, what behaviors have been studied, and what populations have been analyzed. So that, the level of personal financial management knowledge will making individuals or loan applicants plans their personal financial systematically.

## **2.2 Financial Management Decision Making**

Thus, from the knowledge about personal financial the decisions may also involve paying for a loan, or debt obligations. According to (Microsoft,2009) the components of personal financial management that individuals or loan applicants have to understand in financial planning was checking and savings accounts, credit cards and loans, investments in the stock market, retirement plans, social security benefits, insurance policies, and income tax management. Robert C. Atchley, (1998) stated about a quarter of adults feel confident in their ability to choose a mutual fund that suits their financial needs, assuming that they know what their financial needs are. Because young adults lack financial concepts and know-how, their capacity for assuring their own financial security over their entire adult lifespan is sharply limited. Well-informed, financially educated consumers are better able to make good decisions for their families and thus are in a position to increase their economic security and well-being. Sandra Braunstein and Carolyn Welch, (2002), financially secure families are better able to contribute to vital, thriving communities and thereby further foster community economic development. Thus, financial education is important not only to individual households and families but to their communities as well. Amid growing concerns about consumers' financial literacy, the number and types of financial education programs have grown dramatically since the mid-1990s.

## **2.3 Personal Financial Management Actions**

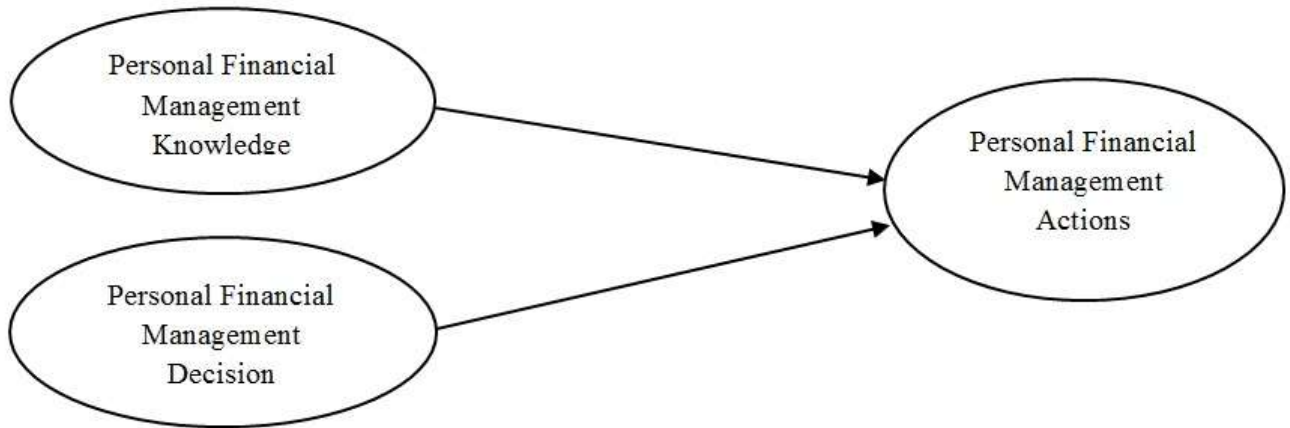
Financial management actions focusing more on major action which is savings, borrowing and insurances. According to Kotlikoff & Laurence (2008) economists, saving means only one thing, which is consuming less out of a given amount of resources in the present in order to consume more in the future. For example saving their income in investment, saving account and insurance. For borrowings, one thing that almost all borrowers know about their mortgages is the amount of the initial scheduled payment. This show that how much borrowers are obliged to pay each month under the terms of the mortgage contract and they know that failure to pay that amount violates the contract, leading to late charges, delinquency reports and, ultimately, foreclosure (Guttentag, Jack 2007). Insurance also related on how individuals manage their personal financial. According to Gollier. C, (2003) stated that insurance also known as financial intermediary is a commercial enterprise and a major part of the financial services industry but individual entitles can also self-insure through savings money for possible future losses. The insured entitles are therefore protected from risk for a fee, with the fee being dependent upon the frequency and severity of the event occurring. In order to be insurable risk, the risk insured against must meet certain characteristics. There are many types of insurance offered but the commonly insurance are life insurance. It is important for individuals to know every type of insurances provided. According to (Chin-Sheng, 2008) the purpose of life insurances is to compensate the death of insurant. An insured amount should be specified when an insurant purchase a life insurance. However, health insurance always is the first choice of any individual when it comes to purchasing insurance. The purpose of health insurances is to cover medical expenditure. Furthermore, insurance also related with financial purposes. A person need to control and know the way to make their financial used sparingly. Insurance are one of the method that can help your financial into a right direction and give a secure warranty. An insurance policy will set out in details which perils are covered by the policy and which are not stated by (David Ransom, 2011).

## **2.4 Relationship between personal financial management knowledge and financial management decision making on financial management actions.**

Piprek (2004) stated that the individuals or loan applicants that have personal financial knowledge must have the ability to make the financial decisions and take the actions to control the financial well-being. Furthermore, the good financial actions and decisions will give positive impacts if the individuals or loan applicants apply their knowledge of personal financial. So that, they know how to planning the personal financial and making financial decisions wisely. According to Robert C. Atchley, (1998) majority of adults do not confident in their decision on their financial needs. Because young adults lack financial knowledge over their entire adult lifespan.

**Hypothesis:** There is a significant relationship between personal financial management knowledge and financial management decisions making on financial management actions.

As a conclusion, the level of personal financial management on loan applicants will help the individuals in financial planning wisely. Useful information about the personal financial will help loan applicants to improve the knowledge and understand the issues. Applying the personal financial knowledge among the individuals and loan applicants will avoid them from financial and debt problem. Loan applicants need to know the level of personal financial management knowledge, personal financial management on savings, borrowings also insurance and personal financial management opinions, decision and education. Overall, this research conducts to know the level of personal financial management on loan applicants. The research model can be described as follow



**Research Model**

**3.1 Research Design**

100 of respondents drawn from loan applicants at Kuantan Pahang with different background participant in the study. The unit of analysis was randomly selected using non probability sampling (Hair, 2009). Data were gathered by distributing the structured questionnaire. Majority of the respondents age are 31 years and above.

**3.3 The Measurements**

The questionnaire survey was developed from existing study by Haiyang Chen and Ronald P .Volpe (1998) where possible to enhance the validity and reliability of measures. The Five Point Likert scale (Mohd Najib Ghafar, 1999) used to measure the questionnaire (accept for section A) which is:

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- Section A: Consist of four questions related to applicants profile
  - Section B: Consist of ten questions related to the general personal financial management knowledge.
  - Section C: Consist of ten questions related to the personal financial management Actions.
  - Section D: Consist of ten questions related to the personal financial management decisions making.
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According to Best and Khan (1998), the questionnaire should be tested for its reliability in order to ensure the questionnaires is reliable or valid. A pilot study is conducted prior to the actual study. The result of reliability test for pilot and real study is shown below in table 3.3.1:

Variables	Item	Cronbach’s Alpha			
		Pilot	Strength of Association	Real	Strength of Association
Financial Management Knowledge (FMK)	10	0.614	Medium	0.764	High
Financial Management Actions (FMA)	10	0.688	Medium	0.759	High
Financial Management Decisions Making (FMD)	10	0.542	Medium	0.678	Medium
<b>Total</b>	30	0.649	High	0.737	High

**Table 3.3.1** Cronbach’s Alpha for Pilot and Real Study

The overall Cronbach’s Alpha for pilot study were 0.649 (medium) and increase to 0.737 (high level) during the real study. According to Mohd Najib (1999), the Cronbach’s Alpha is acceptable. Therefore, the questionnaire is appropriate suitable to be used in this study.

### 3.5 Data Collection Procedures

The sample should be a representation of the general population. According to (Field, 2005) sample is a smaller (but hopefully representative) collection of units from a population used to determine truths about that population. For this study, data will be collected from the questionnaire that will distribute and approach every loan applicant around Kuantan.

### 4.0 Data Analysis

All collected data has been analyzed using Statistical Package for Social Science Software (SPSS) to analysis data earned. Processing data is collecting, preparations, analyzing, restore and production data technique Mohd Najib, (2000). Data cleaning shows that the data is complete and no outlier occurred (Hair et al. 2010). Descriptive analysis used to describe information about research question by using percentage, mean score and standard deviation.

While to test the relationship of the study regression analysis are used (Hair et al. 2010 & 2008). The main requirement to use regression is the data normality, for the purpose of this study z score for skewness and z score for kurtosis were used. The result (Table 3.3.2) shows all the data are normal because the score is not less or more then -2.09 to 2.90. Hair et al. (2008):

Variables	N	Statistic	Skewness	Statistic	Std. Error	Z Skewness	Kurtosis	Statistic	Std. Error	Z Kurtosis
FMK	100	.047	.254	.185	.093	.503	.184			
FMA	100	-.196	.254	-.771	-.290	.503	-.576			
FMD	100	-.226	.254	-.889	-.366	.503	-.727			

**Table 3.3.2** Z score for the data normality

### 4.1 Respondent Background

There were 100 respondents which is loan applicants have been selected to give their respond for the survey. The selection of the respondent based on non-probability sampling which is randomly selected from any loan applicant situated in Kuantan, Pahang. There were 30 questions about personal financial management received and answered by the loan applicant. The data obtained from the questionnaires were analyzed using Statistical Package for the Social Science (SPSS). The data in the analysis is divided into three main sections. First section is Section A explain about respondents background, while Section B and Section C explain about the level of personal financial management among loan applicants at Kuantan, Pahang.

#### 4.1.1 Respondents Profile

With the survey response rate of 100%, the findings show that 41 percent or a total of 41 of the respondents in this study were male. While, 59 percent (59) of the respondents in this study were female. The population of loan applicants according to age, where the highest percentage of respondents are whom aged of 20-30 years old with 39 percent (39) of loan applicants. The respondents are whom aged 41 years old and above with 36 percent (36) of loan applicants. While the lowest percentages are whose aged 31-40 years old with 25 percent or 25 loan applicants.

According to sectors employment, the respondents work for the private sector with 42 percent (42) loan applicants. While for the statutory sector, the percentage was 36 percent (36) loan applicants and for the government sector, which is the lowest among the sector, the percentage was 22 percent (22) loan applicants. This survey shows that 81 percent (81) of loan applicants are Malay, whereby 13 percent (13) of loan applicants are all Chinese and 6 percent (6) person of loan applicants are Indian.

#### 4.1.2 What is the level of general personal financial management knowledge, decision making and actions among loan applicants in Kuantan Pahang?

By adapting from Muhammad Najib (2003), interpretation of mean which has been used by previous research is shown in the table below:

Classification of Mean Score	Level of Valuation
1.00 – 2.33	Low
2.34 – 3.66	Medium
3.67 – 5.00	High

**Table 4.1.1** Mean according to Mohd Najib (2003)

The following are the findings from the analysis for the first objective:

Items	Mean	level
Financial Management Knowledge (FMK)	<b>4.2722</b>	<b>high</b>
Financial Management Actions (FMA)	<b>3.8500</b>	<b>high</b>
Financial Management Decisions Making (FMD)	<b>4.1356</b>	<b>high</b>

**Table 4.1.2** Level of Personal Financial Management

There were 100 loan applicants involve as the respondents in the study on the level of personal financial management at Kuantan, Pahang. The analysis of these objectives has been proven through a questionnaire that was given to respondents. Regarding to level of personal financial management among loan applicants are categorized as follows Mohd Najib (2003). The mean of 3.8500 to 4.2722 shows that all the research objectives at high level respectively. It's obviously shows that the loan applicant's personal financial management was at high level and in line with previous studies by Kotlikoff Laurence J (2008), Guttentag Jack (2007) and Chin-Sheng (2008). In a conclusion, it's obviously shows that loan applicants having a high level of understanding on the personal financial management which is knowledge, decision making and actions.

#### 4.1.3 What is the relationship between personal financial management knowledge and financial management decision making on financial management actions?

The hypothesis being develop to answer the research question on the relationship between personal financial management knowledge and financial management decision making on financial management actions is there is a significant relationship between personal financial management knowledge and financial management decisions making on financial management actions.

To test the hypotheses, subsequent analysis of Pearson Correlation (r) conducted to assess the relevance of the items surveyed or any multicollinearity problem among the factors (Hair et al. 2007). There were no multicollinearity problem occur on the study if the Pearson correlation between the factors is below .90 as show in the Table 4.1.3 (1). The result of reliability test show Cronbach alpha at .678 to .764 which is moderate to good level of reliability of instruments (Hair et al. 2007) as show in the Table 4.1.3 (2).

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

		FMB	FMK	FMO
Pearson Correlation	FMA	1.000		
	FMK	<b>.518</b>	1.000	
	FMD	<b>.257</b>	<b>.195</b>	1.000

**Table 4.1.3 (1)** : Pearson Correlations

Variables	Items	KMO	Cronbach Alpha
Financial Management Knowledge (FMK)	10	.734	0.764
Financial Management Actions (FMA)	10	.588	0.759
Financial Management Decisions Making (FMD)	10	.722	0.678

**Table 4.1.3 (2)** : KMO and Cronbach Alpha

Finally, the result of regression conducted to find the relationship between the factors under study aims to look at the variables that influence the model under review to quantify precisely the extent and direction of the relationship between several independent variables on the dependent variable (Chua, 2006) show in the Table 4.1.3 (3).

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.542 <sup>a</sup>	.294	.278	.35540	.294	18.118	2	87	.000	1.627
a. Predictors: (Constant), FMD, FMK										
b. Dependent Variable: FMA										

4.1.3 (3) Model Summary

Both independent variables together explain 29.4 per cent of variance (R Square) in personal financial management, which is significant, as indicated by F-value of 18.118 in the following table 4.1.3 (4).

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.577	2	2.289	18.118	.000 <sup>b</sup>
	Residual	10.989	87	.126		
	Total	15.566	89			
a. Dependent Variable: FMA						
b. Predictors: (Constant), FMD, FMK						

The finding supported by Pipek (2004) the individuals or applicants that have personal financial knowledge have the ability to make the financial decisions and take the actions to control the financial well-being. It is also proven by Kotlikoff Laurence J (2008), Guttentag Jack (2007) and Liebermann and Flint-Goor (1996) explained that knowledge of personal financial is the most important factors influencing the financial decisions and financial planning.

#### 4.5 Conclusion

As a conclusion, all the variables in the study achieved Cronbach’s Alpha that needed for the personal financial management knowledge, decision making and actions All the variables are at high level according to Mohd Najib (2003). Meanwhile, the relationship between personal financial management knowledge and financial management decision making on financial management actions is significant at 0.00. The research model was supported at 29.4 per cent. The lower of percentage of R Square change may influence by another factors that not studied in this study.

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