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DETERMINANTS OF FINANCIAL PROBLEMS AMONG ADULTS

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Abstract: *Consumer behaviour of young adults become the major concern in the financial management field. This group of individuals involves in more complex financial decision making and are in the process of establishing financial management practices. Therefore, the people's ability to manage his/her personal finance has become an important issue because people looking at different aspect of their financial affair. The aim of this paper is to review the determinants of financial problems among adults based on the previous literatures. From the previous literature it can be seen that the financial literacy, personal and family background and financial behaviour are significant in affecting the financial problem among adults. Hence, a good financial literacy, behaviour and education is able to minimize the financial problem and give more financial stability for each individuals.*

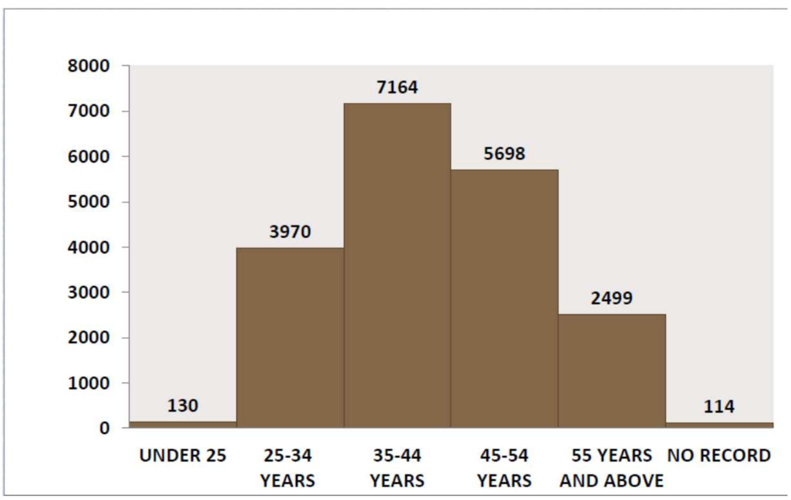
Keywords: Financial Management, Financial Problem, Adult

Introduction

Consumer behaviour of young adults become the major concern in the financial management field. These group of individuals involves in more complex financial decision making and are in the process of establishing financial management practices (Henry, Weber, & Yarbrough, 2001; Parotta & Johnson, 1998), adapt to consumer culture, debt and credit facilities (Roberts & Jones, 2001). Thus, leads to increasing rate of financial debt and usage of credit card among this group (Boddington & Kemp, 1999; Joo, Grable, & Bagwell, 2003; Lachance, Beaudoin, & Robitaille, 2006), and it finally increase the financial difficulties and dissatisfaction (Roberts & Jones, 2001).

Financial problem among adults can be contributed by the way in which individuals manage their personal finance. Hence, financial management can be defined as a set of behaviours in management of cash and credit, financial planning, insurance, retirement, investment and estate planning (Godwin, 1994; Parotta & Johnson, 1998).

In addition, the financial problems among young adults become the hottest topic nowadays. According to Malaysia Department of Insolvency (MDI) (2016), inability to pay debts of at least RM30,000 by the debtors can be declared bankrupt pursuant to an Adjudication Order made by the High Court. Then, there is an increment of bankruptcy in Malaysia among young adults which signals serious financial management problem. In addition, young adults which age between 18 to 35 years old are reported to have serious debts problem due to expense beyond the income.



Graph 1: Total bankruptcy cases based on age for 2012 (Source: MDI, 2016)

Therefore, the people's ability to manage his/her personal finance has become an important issue because people looking at different aspect of their financial affair. Most of people no longer looking at financial affair like saving and borrowings but also on long–term prospect such as retirement plans, children plan, family future home and similar items. The investment decision also a part of sources of finance by individuals. Thus, an individual may seek to borrow from banks, financial institution such as credit union, through credit card and also from friends or family members when they are in need of money (Ibrahim and Alqaydi, 2013).

Hence, the aim of this paper is to review the determinants of financial problems among adults based on the previous literatures.

Conceptual Framework

Figure 1 below describe the conceptual framework on the effect of financial literacy, personal and family background and financial behaviour on the financial problem among adults.

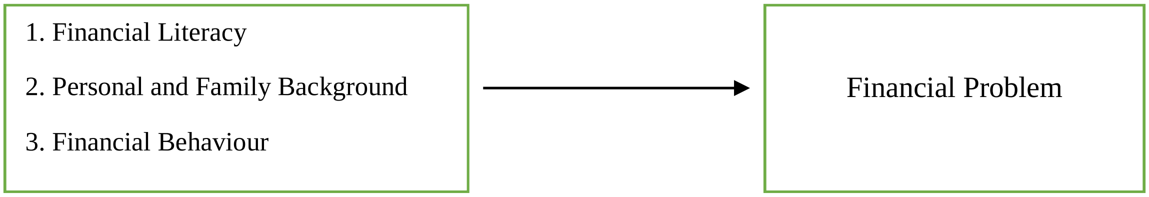


Figure 1: Conceptual Framework

Financial Problem

Financial problem is referred to as inability to manage expenses (Falahati and Paim, 2012). College students are the primary focus of the present study, since they are the future career and labor force contributors, however, the financial situation of today's college students is characterized increasingly by high levels of debt (Roberts and Jones, 2001). Besides student loans, young adults sometimes accumulate considerable credit card balances along with house mortgages, car loans, and other forms of debt. Without a foundation of knowledge about personal finances, it is obvious that many young adults struggle to effectively manage their personal finances. Given the high rates of financial debt and credit card use among students (Boddington and Kemp, 1999; Joo et al., 2003; Lacourse et al., 2006), it is not unexpected that they report high degrees of financial difficulties and dissatisfaction (Roberts and Jones, 2001). Although both financial problems and dissatisfaction can have harmful effects on a range of factors, such as quality of life, marital satisfaction, physical and mental health, and job productivity (Drentea and Lavrakas, 2000; Kim et al., 2003; Mugenda et al., 1990),

Financial Literacy

The theory of literacy refers to the human aptitude to read. Based on Ibrahim and Alqaydi (2013) indicated that the theory is basically related to knowledge and skills necessary to see the demands of living in a self-governing society. Thus, literacy comes in many forms such as political, environmental, cultural, and financial. On the financial part, there are five domain of literature for financial literacy. These domains are knowledge and financial model, capability to communicate about financial concept, aptitude in managing personal finances, and skills in making proper financial resolutions, and assurance in successfully planning for future financial needs.

Financial literacy also can be defined as measuring how well an individual can understand and use personal finance-related information. Financial literacy also defined as ''a combination of awareness, knowledge, skills, attitude and behaviours necessary to make sound financial decisions and ultimately achieve individual financial wellbeing''. Hence, when individuals have got the right information, they can study and analyse the information before making a decision to obtain particular financial need. For instance, the individual wants to obtain a housing loans, he/she visits several banks in order to get the lowest interest rate offered by the banks, then he/she can make comparison between them (Ali, Rahman, & Bakar, 2015).

The financial knowledge can help those people in which considering retirement plan to have a better life in future. Basically, the process to formulate the retirement plan is complex and challenges which requires a few financial knowledge. For example, the individual will faced the problem in overestimating their retirement income due to lack of knowledge in interest rate and inflation. So, financial literacy is related with individual who are considering retirement plans because they can make appropriate financial planning for their future in retirement life. They are also become more confident of their coming retirement compared with their financial illiterate friends (Sabri et al., 2015).

Lastly, the financial literacy also can motivate people to practice healthy financial management. The individual who are lack of financial knowledge might not know the appropriate technique of implementing financial management practices. Therefore, the financial literacy can improve financial management practices because it gives positive impact on retirement confidence and to be more optimistic of their retirement plan (Ibrahim and Alqaydi, 2013).

Personal and Family Background

Personal and family background in this context refers to the demographic and socioeconomic factors such as age, ethnicity, gender, marital status, education and income. These factors are positively associate with the financial well-being (Sabri, Cook, & Gudmunson, 2012).

Gender play a crucial role in financial management practices. Men is better in term of personal finance knowledge compared to women. In other comparison, women are share a larger burden of raising families, start to work later and earn less during their careers, live longer, have inadequate pension or survivor's benefits, and also face more challenges in financial management compared to men (Chen and Volpe, 2002).

Gender differences especially in financial skills may result the differences between men and women in the context of money management, financial behavior, and levels of financial among both genders. Women are more intend to own a higher number of credit cards compared to males, and women are reported to own a higher risk of debt payment compared to man. Therefore, the differences of gender can be an interest issue and debate among economics educators especially in financial management and financial well-being studies (Falahati and Sabri, 2015).

In addition, previous study found that high school students are not receiving a good and adequate education in fundamentals of personal finance and also have poor knowledge about that. It can be proved by previous study that the average correct score for 1,509 high school seniors from 63 schools in the areas of income, money management, savings and investment, and spending are 57% (Chen and Volpe, 1998). It shows that there are large numbers of students leaving schools without adequate knowledge and ability to make good financial decisions. Besides, individuals without education levels including those without a university (college) education have lower financial literacy and also lack of necessary numeracy skills (Vyvyan, Blue, & Brimble., 2014). Hence, financial decisions were highly influenced by financial knowledge. People that have poor knowledge of personal financial management may lead to incorrect and expensive decisions in the area of general knowledge, saving and borrowing, and investments (Peng et al., 2007).

Lastly is religion. Religion has a significant influence on people's behaviors, attitudes and values. There are previous studies that found variations in consumerism among different religious groups such as, Hindus (rational shoppers), Catholics (informed shoppers) and then Muslim (risky shoppers) (Sabri and Falahati, 2012). Religious values and belief will be affected the ritualistic and symbolic human behavior (Sabri, 2011).

Financial behavior

Financial behavior refers to how individual manage their own financial. Many definitions were used as regard to financial behavior. The determination, procurement, dispensation and utilization of financial resources was also referred to as financial management behavior. In addition, a set of behaviors performed is all about planning, implementing, and evaluating involved in the areas of cash, credit, investments, insurance and retirement and estate planning. Then, financial management behavior is summarized as a part of financial decision-making, harmonizing individual purpose and enterprise objective (Mien and Thao, 2015).

Besides that, previous studies define financial behavior as "any human behavior that is relevant to money management (Qamar, Khemta, & Jamil, 2016). Meanwhile, some Scholars had examined the financial behavior in which they examined the motives, individual's risk tolerance, patient decision, financial decision and saving decision through the perspective of psychological factors (Huat, Geetha, & Mohidin, 2010).

Moreover, previous research concluded that in determining a person's financial behavior, financial attitudes were play an important role. Thus, financial attitudes were configured the way people splurge, accumulate and hoard money. However, financial behavior is also related to how to separate money for savings and expenses. One of the most common financial management principles is to save regularly, generally by setting aside some amount of savings before paying for expenses (Mien & Thao, 2015; Hogarth, Beverly, & Hilgert, 2003).

Hence, financial management behaviors are the behaviors that will help individuals and families attain more stable financial position and net worth (i.e., reduce financial liabilities and/or increase their financial assets. Even though, we do not state these behavior in moralistic way whether good or bad a behavior, these behavior do help individuals and families keep their expenses within their build assets and income limits (Dew & Xiao, 2013).

Conclusion

From the previous literature it can be seen that the financial literacy, personal and family background and financial behaviour are significant in affecting the financial problem among adults. Hence, a good financial literacy, behaviour and education is able to minimize the financial problem and give more financial stability for each individuals.

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