

Urban Household Credit Card Debt Behaviour in East Malaysia: A Conceptual Framework

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ABSTRACT

Society in the modern world nowadays see debt as something normal. Hence, household seems difficult to escape themselves from debt. Credit Counselling and Debt Management Agency (AKPK) recorded from 50,361 cases that enrolled in debt management program, 10.6 percent households could not pay their credit card debt while the remaining had repayment problem with housing loans, car loans and credit cards outstanding (Nie, 2010). The development of credit card facility as a medium of payment to buy goods and services also encourage household to spend beyond their means. Given the increase of cost of living like subsidy restructuring like petrol, increase in tariff electricity and also the implementation of Goods and Services Tax (GST) among the factors which induce the use of credit card to accommodate their cost of living. At the same time, credit card issuer such as financial and non-financial also contributed to the increase of household debt by giving easy terms and condition with low interest rate. Therefore the objective of this research is discuss on related literature reviews and follows by the development of conceptual framework that determine urban household credit card debt by integrating psychological factors, bank's policy factors and socio-demographic factors. Next, this paper also will discuss methodology instrument that will be used for this study.

Keywords: Household debt, attitude, economic and socio-demographic factors, bank's policy

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ABSTRAK

Masyarakat dunia moden pada masa kini melihat hutang sebagai sesuatu yang normal. Oleh yang demikian, isi rumah seakan sukar untuk melepaskan diri daripada hutang. Agensi Kaunseling dan Pengurusan Kredit (AKPK) merekodkan sebanyak 10.6 peratus isi rumah daripada 50,361 kes-kes yang berdaftar dalam program pengurusan hutang, tidak dapat membayar hutang kad kredit mereka manakala selebihnya mempunyai masalah pembayaran balik pinjaman perumahan, pinjaman kereta dan baki kad kredit (Nie, 2010). Perkembangan kemudahan kad kredit sebagai medium pembayaran bagi pembelian barangan dan perkhidmatan juga telah menggalakkan isi rumah untuk berbelanja di luar kemampuan mereka. Berdasarkan kepada kenaikan kos sara hidup seperti penyusunan semula subsidi seperti petrol, peningkatan tarif elektrik dan juga pelaksanaan Cukai Barangan dan Perkhidmatan (GST) merupakan antara faktor-faktor yang mendorong penggunaan kad kredit bagi menampung kos sara hidup mereka. Pada masa yang sama, pengeluar kad kredit seperti institusi kewangan dan bukan institusi kewangan juga mendorong kepada peningkatan hutang isi rumah dengan menawarkan syarat yang mudah pada kadar faedah yang rendah. Oleh itu, objektif kajian ini adalah membincangkan ulasan sastera yang berkaitan serta pembangunan rangka kerja konsep yang menentukan hutang kredit kad isi rumah di bandar dengan mengintegrasikan faktor-faktor psikologi, dasar bank dan sosio-demografi, seterusnya membincangkan metodologi yang akan digunakan dalam kajian ini.

Kata kunci: Hutang isi rumah, sikap, faktor-faktor ekonomi dan sosio-demografi, dasar bank

INTRODUCTION

The emerging of credit card facilities as a mode of payment to purchase goods and services had encouraged households to over spend beyond their means and it is getting worse because of lifestyle (Zurairi et al., 2013). Given the rising of living cost in Malaysia, households might use credit card as a tool to smooth their consumption (Hussin et al., 2013). Thus, it can be said that the convenience of credit card had caused household to take advantage of it as personal consumption instrument (Kamleitner and Kirchler, 2007) hence contributing to a higher household debt. Quoting Elizabeth Warren regarding the issue, said that “an effective policy is policy which is able to influence household behavior”. This clearly shows that investigation on the issue of household debt should not be limited to studies at macro level. In fact, it is expedient for research at micro level to be done so that any recommendation given on the policy could have a significant impact on this issue. Studies on debt issue and understanding of household behaviour from other perspective such as psychology should be explore and not limited to economics and social factors alone. Therefore the objective of this research is to discuss on related literature reviews on household debt and follows by the development of conceptual framework that determine urban household credit card debt by integrating psychological factors, bank’s policy factors and socio-demographic factors. Next, this paper also will discuss methodology instrument that will be used for this study.

LITERATURE REVIEWS

Psychological Factors

Most of debt problem in the society is driven by the mentality associating possession of credit card as a must in today’s world. Furthermore, a credit card also symbolizes socio-economic status of a person according to the maximum amount of credit that they have. This causes individual to own more than one credit card. Even more alarming is when household use credit card for consumption recklessly without taking into accounts its priority when purchasing good and it is being use without supervision. There is also household which uses credit card for all consumption including when buying grocery, with an aim of maximizing the reward earned and did not pay the full balance of the credit but only settling credit card debt at a minimal fee. Due to such mentality and attitude, it is difficult for household to escape from debt, thus, signaling the importance of psychological factor in explaining household debt behavior. Hence, the psychological factors are described in terms of attitude towards credit and locus of control.

Attitude Towards Credit

Each individual has a unique psychological factors in influencing their decision-making. In other words, the psychological effect of this can lead us either spend the money and do not make any savings, savings and do a little shopping or refrain from excessive spending and do a bit of savings. Although there is relationship between psychological variables and debt, but these relationships are still vague because it is difficult to measure something that is abstract. One of the psychological component is attitude. Many observers have concluded the factors that determine the issue of household indebtedness is not only subjected to economic factors and socio-demographic variables, but also found that attitude plays an important role in determining the results of indebtedness, particularly in connection with the use of credit (Cosma and Pattara, 2010; Wang et al., 2011; Zafar et al., 2010; Haultain et al., 2010; Livingstone and Lunt, 1992). Thus this study suggested the best way to investigate the factors that led to the desire is to study the attitude of credit that cannot be ascertained clearly its relationship to the indebtedness in most of previous studies.

The results of previous studies on the relationship between attitudes and indebtedness were found to be inconsistent but acknowledged attitude indeed play an important role in influencing household debt. For example, findings by Livingstone and Lunt (1992) show that respondents who in debt, show unwavering acceptance of credit facilities; even though they assess the credit facility, it will cause them to face the problem of a negative view towards debt but at the same time a positive opinion on the debt that is the borrowers believe it is better to do some borrowing than having to delay the purchase of the desired or necessary items. As a conclusion, study by Livingstone and Lunt (1992) found that respondents acknowledge the existence of the adverse effects of debt but at the same time take debt as a pleasant modern facilities.

By contrast, the group does not do borrowing see credit as something to be avoided and believe an individual would need to save to meet the needs or desires. Their study found that the elderly tend to have anti-debt compared with young people who demonstrated in terms of the savings difference where the savings made by the elderly are more likely than young people (Livingstone and Lunt, 1992). In terms of debt repayment, this group were found to have a positive attitude towards credit and rejects the view that the debt a shame because the view to borrow and repay debt is an acceptable form of budgets and thus it allows one to obtain the desired product quickly without having to face adversity like saving.

Attitude to debt is something that changes or dynamics or in other words the relationship between the two variables are not static. The study by Davies and Lea (1995) to undergraduates (year 1, year 2 and year 3) in England found that the level of indebtedness and debt are different when they in third year of study where there is an increase in total debt and credit balanced. In one study it was found that student attitudes at first is anti to debt however it turned to pro attitude towards debt when they are in study 3. The patent was confirmed by regression analysis where it shows that the level of indebtedness changed drastically between 1 and 2 years of study and changes in terms of the prevailing attitude among academic year 2 and 3. The study Davies and Lea (1995) concluded at the beginning of their studies, students are not exposed to activities they owe nevertheless find themselves in a situation where debt is seen as a convenience, easy and they have a favorable view of the expectations of future income and eventually changed their attitude to debt in the year to 2 to 3.

However, the study Davies and Lea (1995) is right in explaining why the students involved with the indebtedness on which their tolerance of debt is high. This high tolerance due to several factors such as young age and the optimistic expectations of their income in the future. However, it is not appropriate in describing the attitude of the group to represent household debt in general. For example, studies Zafar et al. (2010) who studied the relationship between the average credit card debt and credit card holder's attitude in Malaysia found no significant relationship between the two variables. Researchers explain the possibility of this is due to the respondents to be very careful in doing shopping with credit cards and may use a credit card for convenience and fast settling their credit card debt.

There are also researchers who studied variables by classifying it into specific components of attitude which is known as attitude ABC Model (Affect, Behavior, Cognition) and its relation to the indebtedness (Cosma and Pattara, 2010; Wang et al., 2011; Haultain, 2010). Pattarin and Cosma (2010) is studying the effects of attitudes towards credit and found that the scale of attitude towards the use of credit as a whole is higher for the groups of credit users compared to non-users, and it is significant. There is a big difference between the groups of users and non-users to measure the average use of credit for cognitive and behavioral components, but it also found to be significant. It also means that credit users are likely to have higher scores for cognitive and behavioral components in the study while

the affective component has an average scale score where the score is about the same for both groups (users and non-users) but it is still significant.

In addition, some study found that attitudes play an important role in the types of credit used by households (Cosma and Pattarin, 2010; Wang et al., 2011). The results Cosma and Pattarin (2010) found that households that have a high value of score attitude will be more inclined to pay for the use of credit cards or loans of sale (point of sale lending) compared with private bank loans and loans from salary (salary loans). In fact, the cognitive component is said to play an important role in determining the order of making decisions of households to determine the type of loan that they desire.

While the study by Wang et al. (2011) also found a positive correlation between attitudes towards credit and behavioral and affective components of it reflected in the frequent use of revolving credit for the view that the respondent is likely to have credit card facilities serve as a stimulus to shop. In contrast to the cognitive component was found to have a negative relationship with the frequency of the use of revolving credit because respondents may have had knowledge of the credit card, they reduce the use of revolving credit due to high interest rates.

Study by Haultain et al. (2010) also tried to see the dimensions of attitudes held by prospective students and the third stage (tertiary) in New Zealand with their debt typically uses three case studies. The first case study is a study that examines attitudes towards debt structure when respondents are in the last stage of the school year in secondary school. Subsequently, researchers conducted a study on the third level students (college / university) and lastly, follow-up study of the high school students from the first sample case studies after two years of a first group of case studies. Three case studies have strong evidence to support that structure attitudes towards indebtedness for students in New Zealand can be explained at least by two-dimensional attitude that has nothing to do with each other. Dimensional attitude was "Fear of Debt" which refers to the affective component while the "Utility Debt" refers to the cognitive components in which the separation of this scale is consistent with the findings of other researchers (Haultain et al., 2010). However, this study did not include attitude components interrelation with the type of debt held by students.

In conclusion, the preceding research affirmed that attitude influences households' indebtedness especially in terms of decision in credit usage (Cosma and Pattarin, 2010; Haultain et al., 2010; Livingstone and Lunt, 1992; Wan et al., 2011; Zafar et al., 2010). However, Chien and DeVaney (2001) noted that there were weak relationship between attitude and behavior and may contributed by the difference in definition and attitude indicator. On the other hand, research findings by Kim and DeVaney (2001) and Chien and DeVaney (2001) found that attitude can be used as a variable that can predict household behavior while Ramayah et al. (2002) stated that most of the consumer decision models emphasize attitude component as a significant variable in predicting behavior. Due to varies findings in the relation between attitude towards debt, it is interesting to know how attitude may influence households indebtedness in the context of East Malaysia.

Locus Of Control

Locus of control is related to how much people believe that their lives are under their own control. Individuals that possess internal locus of control believe that they determine what happens to them while individuals with external locus of control feel that cause and control from certain events in their lives are beyond their control and tend to attribute what happens to them to the external environment (Legge and Heynes, 2009). Locus of control is rarely being investigated in previous studies related to household behaviors that lead them to indebt as stated by Valins (2004: 43) "the most powerful explanation of the level of debt appears to be [general] locus of control, a factor not normally included in studies of household behavior". Lunt and Livingstone (1991) found that individuals who save have more internal locus of control than people who did not save. Previous studies by Davies and Lea (1995), Cosma and Pattara (2010) and Lunt and Livingstone (1992) found that individuals who have an external locus of control tend to be dominant pro debt. The study by Livingstone and Lunt (1992) found that those who owe more inclined to blame the credit system for their financial problems of credit system, then this shows they have external locus of control. While the study by Davies and Lea (1995) and Cosma and Pattarin (2010) found that external locus of control variables have significant relationship to the use of credit among the people. However, the study by Wang et al. (2011) contradicts the findings of previous studies that the study found that external locus variable has a negative relationship to the frequency of the use of revolving credit and explain this situation occurred because the respondents can manage their financial accounts to prevent yourself from incurring more debt. However, the study Wang et al. (2011) did not explain in detail how this happens.

Banks' Policies

Benefits given by the bank and payment policies significantly influence household spending by using credit card (Teoh et al., 2013) and certain reward program practice by financial institutions will have capability to change credit card holders spending and debt (Agarwal et al., 2010). In the case of issuer, they might benefit from the higher interest rate charges and penalties imposed on the credit card, therefore it create an opportunity of credit card debt once the credit card holders does not make any repayment for the money he or she has spent. Ekici & Dunn (2010) suggested that a higher level of credit card debt leads to a decline in total household consumption growth. Thus, it reflects credit card holders' spending behaviour as proven by Gross & Souleles (2002) who mentioned that the higher the credit availability, the higher the spending activities. Prior studies on bank's policy has influenced consumer-spending behavior, support the relationship between bank's policies and credit card spending behaviour (Ritzer, 2009; Chackravorti; 2003; Balasundram and Ronald; 2006; Hunt, 2009; Zinman, 2009; Subramaniam and Marimutu, 2010; Teoh, Chong and Yong, 2013). In order to encourage Malaysian to utilise credit cards, bank have changed their policies such as widening the benefits, loosening the qualification of credit cards application and more flexible payment (Teoh, Chong, & Yong, 2013). The study conducted by Ching & Hayashi (2010) found that payment card reward on consumer choices of payment methods has a strong direct influence to consumer spending behaviour. Besides, hypercompetition between bank and non-bank in providing credit card offers various incentives to credit card holder. Chakravorti (2003) in his study stated that many issuing banks and non-banks offers different incentives to attract consumers apply for credit card. He added that no annual fees, cash rebate, travel miles, instalment plan and discount for purchase item's are several intensives provided by the bank. Hence, long interest free period, high credit limit, wide acceptance, ancillary functions, bank image, effective handling of complaints and heavy advertising of the card are contributed variables towards credit card usage (Ramayah, Nasser, Nasuridin, & Choo, 2002). Thus the increasing trend of higher outstanding card balances suggests that credit card debt may continue to be a major problem for household in the long run (Calem & Mester, 1995).

Economic Factors

Economic factors are the major predictors of consumer consumption of which people will respond rationally (Lunt and Livingstone, 1991). Income is the factor that contributes to debt (Legge and Heynes, 2009; Valins, 2004; Webley and Nyhus, 2001). In United Kingdom (UK), low income is the predictor of debt problem and individuals that have low income tend to have higher arrears (Webley and Nyhus, 2001; Valins, 2004). Legge and Heynes (2009) showed that in some case studies in New Zealand, family that was living on a low income was found to be the major cause of indebtedness and increasing the income is considered as the only way out. DelRio and Young (2005) found that there is a high probability of participation to unsecured debt if individual has positive expectation in their future financial position. Furthermore, Duesenberry's (1949) theory of consumption stated that individuals with low income in comparison to their referents may be more likely to accrue debts because they attempt to maintain a standard of living that is above their financial means. Because of social pressure to keep up with others, some households will consume beyond their needs and income. Thus, this will lead them to indebtedness and they will tend to own more than one credit cards. When their debt becomes worse and they cannot make repayment, this will then lead them to bankruptcy.

Socio-Demographic Factors

Previous researchers are often investigated socio-demographic factors such as age, marital status, education level, employment status and family size or number of children. Basically, single parents face financial difficulties are more complicated and this situation will worsen when the amount income could not sustain many number of children in a household. Even individuals who are young, have children and get divorced were found to be the most important factor in determining family involved in debt (Legged and Heynes, 2009). However, the results of a study conducted by Yieh (1996) give different results which showed a significant negative correlation between the numbers of children with behavior towards installment debt. This proves that many children are not sole reason that must be given for an individual to over excess in owing to finance expenses of their children.

Age and level of indebtedness can be explain by using Theory of Life Cycle Model by Modigliani and Brumberg in 1955. This theory states that people choose life patterns by maximize lifetime utility subject to their budgetary constraints (Alley, 2005). Specifically, the justification Model Lifecycle by Miller (1996) explains that in the early ages of the individual time of employment, income

is lower than expected and at this level of age, individuals tend to borrow; more and more individuals aged and at the same time revenues also increased, people will start to pay back the loan and will start saving to finance retirement consumption. Life Cycle Model theory is supported by Legge and Heynes (2009) in the study of family debt in New Zealand where there is a significant relationship between age and total debt. New Zealand citizens are becoming more dependent on debt as they go through their 20s and it continues when they through the ages 30, 40 and early 50s. However, the debt fell significantly in their late 50s to retirement age and significant relationship to the debt charge and credit cards.

Another study by Livingstone and Lunt (1992) also reported a group of young people who are more likely to use credit and face debt problems. Awh and Waters (1974) also noted that young people prefer to use credit cards compared to the older generation. Cox and Jappelli study (1993) found that the desire to increase debt until household reached in the middle age 30s and it was back down after that. In fact, the gap between desire and owe a real debt is higher for the young and old household shows these groups tend to face problems of liquidity constraints.

Education and work are intertwined with each other. Basically we can assume that individuals with higher levels of educational qualifications will have a good position and salary. As already discussed, high income will cause people tend to use excessive, particularly in terms of the use of credit cards due to higher credit limit. In addition to excessive credit card use and at the same time they made a loan, this household will be in hock that it will give an adverse effects. Education can affect the users creditworthiness thus its related to level of indebtedness and individuals who have high levels of education tend to have high creditworthiness and confidence in their financial status in the future (Kim and Devaney, 2001). The findings of previous studies found that the higher the education level the more likely an individual is to be pro debt (Wickramasinghe and Gurugamage, 2012; Lee et al., 2007; Lee et al., 2011; Zuroni and Lin, 2012).

In general, most of the findings of previous studies found that people who work full-time are more likely to be effective than those that do not work (Zhu and Meek, 1994; Lee et al., 2007; Ottaviani and Vandone, 2010). This is because those who work full-time or in other words have a permanent job (for example working with the government) is usually will have monthly salary consistently (Zhu and Meek, 1994). With such a response, those with fixed incomes may decide to take a loan or credit because they think their economic situation is better than others. Consequently, the use of their credit cards increased (Karlsson et al., 2004) and to support the use of this financing facility, they take credit and repay the debt with fixed income earned each month and this situation will make them saving less or no saving at all.

The relationship between type of employment and a stable income to total debt was also supported by Yilmazer and Devaney (2005) and Ramayah et al. (2002) who found that self-employed households are less indebted than individuals with paid employment. The findings by Ramayah et al. (2002) found that households with blue-collar jobs is a group of credit card users who are inactive than those who worked in white-collar group. While the study by Yilmazer and Devaney (2005) found that self-employed people are less likely to have debt securities, credit card balances, installment loans and other types of debt. This is because households do not have a consistent income will refrain from taking credit facility.

Even from the perspective of credit lenders such as banks, those who do not have permanent employment or self-employment is seen as the group that has the income effect is not consistent then the group will have a problem in terms of access to credit. This finding also consistent with the household debt situation in Malaysia where household debt among civil servants quite worrisome because they use more than half of their salary to pay off debt (Nurhuda, 2015) and statistic from Insolvency Department reported 1086 civil servant were declared bankrupt in 2009 and their salary deducted for installment payments (TheSun, 2011). If this kind of household debt pattern continuously increase, this will lead to financial distress to the individual and family thus will create social problem such as lending from loan shark in order for them to survive.

Religious factors play an important role in the daily lives of every individual implies a degree of belief or faith a person who translated into action as described by Morphetou and Gibbs (2008: 12) "strength of religious belief affects individual opinion of what is [ethically] acceptable." Reviews and Leah Davies (1995) found that students with atheist or agnostic beliefs will tend to have debt than students who are Protestant. While in terms of attitude, this study also reported that non-Christian respondents will tend to be pro debt. The study by Abdul Muhmin and Umar (2004) conducted among respondents in Saudi Arabia that Muslims find they have a negative attitude towards credit and credit cards. In fact, the study by Universities UK (2003) also support the Pakistani people and Muslims are less inclined towards debt.

Hawkins and Mothersbaugh (2010) stated that culture is a complex interaction which includes knowledge, belief, art, law, morals, culture and whatever abilities and habits acquired by man as a

member of society. Even Buenstorf and Cordes (2008) propose the distribution of a culture of consumer behavior is through individual and social learning processes are influenced and limited by the psychological development in form what we learn, how people think and who emulated whom. Thus the ethnic factor is very important in determining an individual's attitude in making the decision to use because there are certain ethnic groups whose culture is practiced in everyday life that does not directly affect the attitude. In fact, we tend to follow the cultural norms without thinking because if we do then it will be classified otherwise as outstanding. It is therefore not surprising that the study Kamleitner and Kirchler (2007) concluded that cultural acceptance is a great power on the use of credit and its influence on behavior but these factors are often neglected in previous studies.

METHODOLOGY

A survey will be conducted among 300 working households of which 150 respondents to be selected in Kota Kinabalu (Sabah) and 150 respondents in Kuching (Sarawak) at the state library, public institutions, and airport by using convenience sampling technique as researcher can quickly reach desired number of participants to draw from the nearby population, rapidly gathering information and extrapolate generalized information from local public opinion. The proposed sample size is a reasonable size as asserted by Roscoe (1975). Sabah has been chosen as due to the fact that it been declared by the World Bank and remains as one of the poorest state in Malaysia (World Bank, 2010) while Sarawak has been chosen since there was a report by the local press that stated a total of 6,925 residents of Kuching has declared bankruptcy since January to September 2013 (Utusan Malaysia, 2013).

A structured self-administered questionnaire will be prepared to investigate the proposed hypotheses. Section A will contain general demographic questions, section B of the questionnaire will cover questions on the household credit card debt behavior which collects households' financial information for credit card. The final section of the questionnaire, Section C will comprise questions on psychological factors, banks' policies, and attitude towards credit. The measuring instrument for psychological factors will be adapted from Cosma and Pattarin (2010), items for banks' policies factor will be borrowed from from Teoh et al. (2013) and Durkin (2000). Next, measurement items for attitude towards credit will be revised from Cosma and Pattarin (2010) and Zhu and Meeks (1994). The items used to assess these variables were taken from standardized scales whereby variables will be measured on a five-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree). Data will be analyzed by utilizing a Confirmatory Factor Analysis by using AMOS computer program and multiple regression analysis via SPSS computer program.

CONCLUSION

Therefore, based on the factors discussed above, the study proposed that factors such as psychological factors (attitude and locus of control), economic factors and socio-demographic factors as controlling factor may determine attitudes toward credit card debt among urban household. Thus this study propose conceptual framework such as Figure 1 as a guideline to carry out this study to further level. These factors important due to economic factors alone will not enough to explain household indebtedness issue and this had been confirm by previous literature. If indeed other than economic factors such as limitation in income and/or increasing in cost of living that contribute to household debt, thus the government initiative by giving subsidy will be ineffective. Due to this reason, psychological factors should be included to investigate this issue to tackle down what are the dominant factor that induce household to use credit card.

This study also include banks' policy to evaluate how far target respondent understand and how they respond towards those policies in order for them to make decision to use credit card as payment instrument.

Hence this study will offer an empirical findings on current situation of credit card debt in Sabah and Sarawak among urban working households. Therefore this study increases the number of research on households' debt particularly in East Malaysia as most studies were conducted in Klang Valley. Next, the study could be used as source of reference (benchmark) for future studies in collecting more micro data on household indebtedness in order to recommend a more practical economic policy to overcome household indebtedness and to tackle poverty issue especially in Sabah not only concentrating on the economic dimension.

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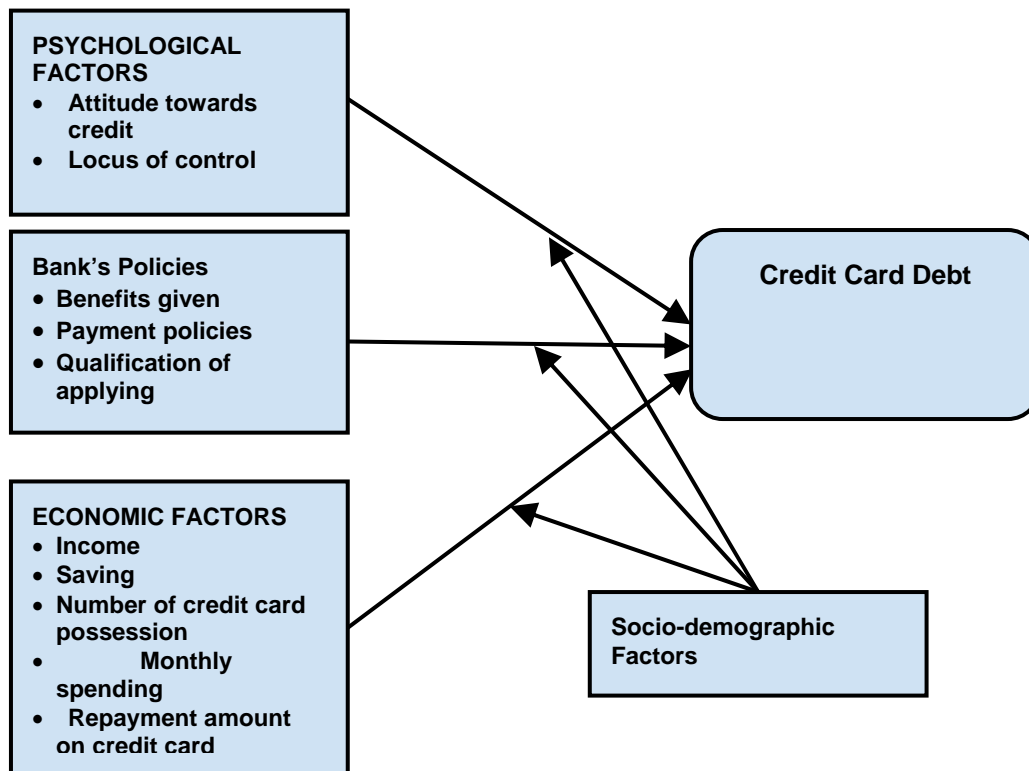


FIGURE 1: Proposed Conceptual Framework Urban Household Credit Card Debt