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The Significance of Islamic Financial Literacy among Youth in Malaysia

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ABSTRACT:*The need to increase financial literacy is important as the economy continues to change. The importance of financial literacy not only among adults but also youth in order for them to make significant financial decision as they transition into adulthood. Previous studies report that financial literacy levels among respondents of surveys were alarmingly low in many countries. The 2008 Great Recession aftermath, numerous studies were undertaken by academic researchers in analyzing the factors affecting the financial literacy of individuals. Previous studies revealed that financial literacy among the young was low and research on the Islamic financial literacy relatively scarce. In view of these concerns, this paper aims to suggest filling this gap by studying the extent of the relationship between financial literacy and its influence towards young adult in Malaysia. Additional research involving financial literacy is necessary. Thus, this paper suggests that future reseach should focus primarily on students' financial literacy within Islamic context and may provide further insights into the effects of Islamic financial literacy intervention on students at college level..*

KEY WORD*: Financial Literacy, Islamic Financial Literacy, Students Financial Literacy*

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I. INTRODUCTION

Most studies define financial knowledge and financial literacy is synonymously (Hutson, 2010). OECD INFE (2012) defined financial literacy as "a combination of awareness, knowledge, skill, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial wellbeing". In 2017, at the launch of the most recent assessment of the financial literacy among students, the OECD Secretary-General Angel Gurria stated that 'financial literacy is an essential life skill'. He explained that 'financial literacy can make a crucial difference in the lives of people, in their opportunities, in their success. It is a foundation stone for well-being, for entrepreneurship, for social mobility, for inclusive growth (OECD 2017: 7). It emphasized the need for longer-term strategic approaches to financial education and repeat measures of financial literacy to show progress over time and reveal gaps in provision (OECD 2017: 3).

The word financial literacy in academic research was fairly new and financial literacy affected more than just households (Kehiaian, 2012). According to Kehiaian, financial literacy was the ability to read, analyze, manage, and communicate about personal financial conditions that affected material well-being. Kehiaian further explained that financial literacy was subdivided into 10 subcategories such as budgeting, mortgages, insurance and risk planning, financial ratios, goal planning, income planning, retirement planning, personal savings, investment planning, and credit management.

Many other authors defined financial literacy in similar terms as "financial literacy is a measure of the degree to which one understands key financial concepts and possesses the ability and confidence to manage personal finances through appropriate, short-term decision-making and sound, long-range financial planning, while mindful of life events and changing economic conditions" (Abdullah & Chong, 2014). However, Ayhan (2017) compressed the latest definition of financial literacy as the knowledge, skills, and ability to navigate the increasingly complex financial markets, and is considered to empower consumers to make responsible financial decisions.

II. THE SIGNIFICANCE OF FINANCIAL LITERACY

It is suggested that greater financial literacy can help individuals face unexpected macroeconomic and income shocks (Klapper, Lusardi, & Panos, 2012). In the current developments of financial markets, it is now becoming an essential for all consumers to be more knowledgeable and competent to administer their own finances. Global changes in financial markets have resulted in the availability of a wider selection of financial products and services, making financial decisions more and more complicated. These results have convinced policy makers in both, developed and developing countries to increase efforts in advancing financial education, so they can increase household saving and participation in financial markets, to improve well-being and reduce poverty ultimately (Mahdzan & Tabiani, 2013).

The competency in financial literacy able to promotes better financial decision making, consequently, enabling better planning and management in important financial matters such as savings, investments, education, insurance, property purchase, or event retirement.Mahdzan & Tabiani (2013) posited that higher levels of financial literacy have a positive impact on saving amongst individuals, because increased literacy implies that individuals who have better understanding of their financial circumstances, would be able to plan their future finances better, hence able to make more informed financial decisions.

Nowadays, especially the global financial crisis aftermath, many people with low level of financial literacy typically spend beyond their capability and ended up struggling to keep the payments of debts because of bad financial decision making. The growing number of over-indebted households has become increasingly worrisome, not only because of the implications for the individuals involved but also because of the impact of this phenomenon on the financial system and on the welfare of society as a whole (Santos & Abreu, 2013) . These negative scenarios have stimulated the research on financial literacy because of its effects on financial decision making. However, most of the previous researcher has analyzed the impact of financial literacy on savings, retirement planning or portfolio choice particularly among households' population, but very few researches have been done in the context of individuals such as students or younger population.

Low levels of financial literacy among high school students are a growing concern in the United States and lack the financial knowledge among them affected their important financial decisions (Nguyen, 2013). Financial literacy and money management skills are important for high school students as they transition into an ever-changing economy. Financially literate students are likely to develop positive financial behaviors and make positive financial decisions. Nguyen revealed from previous studies that financial literacy classes can increase financial knowledge. The findings in Nguyen study suggest that financial literacy classes increased students' financial knowledge through financial socialization and effective experiential teaching techniques. Because the importance of financial literacy among consumers especially the younger generation, Nguyen also suggested that future research should further explore the universal effectiveness of financial literacy classes among students.

III. THE LEVEL OF FINANCIAL LITERACY IN MALAYSIA

Previous studies report that financial literacy levels among respondents of surveys are alarmingly low in many countries (Sekita, 2011). In particular, the young and the old age segments, women, and less-educated groups are vulnerable in financial transactions and decision making due to their financial illiteracy (Lusardi & Mitchell, 2014).

According to Ibrahim et al (2010), in Malaysia, topics on personal finance are still considered minimal. The study argued that, if there are programs or activities on it, they were never addressed directly to young consumers specifically those in between aged 21 to 24 years: the need to improve financial literacy of individuals, specifically students at university level, so they can have positive cash management attitudes before they enter the job market. The positive attitude such as financial literacy will help young consumer to practice proper personal financial management as future working adults. The study also pointed out that in Malaysia, studies on financial literacy among the age group 18-24 year are very limited, let alone those in the age group below than 18 years old. Furthermore, Ibrahim et el (2010) stated that it is prudent to suggest future research should be concentrating on this age group below than 18 years to improve their financial knowledge and subsequently prepare them with money management skill before embarking on their college life. Ibrahim et al. (2010) also agreed that most of the programs or activities related to the financial literacy never address young consumers such as those aged 18-24 years old.

On the other hand, Sabri (2011) indicated that to date of his research, Malaysia has no public policy specifically concerning financial literacy of its citizens. According to his study, curriculum or coursework related to personal finance has not been developed or taught at preschool or primary school levels. Sabri further claimed Malaysian students can learn about household economics, general economics, accounting, and entrepreneurship during secondary school (age 13-17 years), but this subject matter is not available to all students due to budgetary constraints and too few teachers capable of teaching this content. In addition to that, he posited that personal finance topics are still considered minimal important by financial counselors and educators in most educational institutions in Malaysia.

For example, according to Sabri (2011), the statistics from Bank Negara Malaysia (BNM) 2012 on non-performing loans (NPL) as a result of credit card uses and personal loans have deteriorated from year-to-year. BNM has introduced online portals including *www.bankinginfo.com.my*, *www.insuranceinfo.com.my* and www.duitsaku.com to help the public gain access to important information about personal finance. In 2006, BNM had set up a credit counseling agency, known as *Agensi Kaunseling dan Pengurusan Kredit* (AKPK) to help individuals take control of their financial situation and gain the peace of mind that comes from the wise use of credit. Through AKPK, individuals wishing to learn about managing their own finances can register in their scheduled programs, which are conducted throughout Malaysia. In the same spirit, *Permodalan Nasional Berhad* (PNB), a government-linked fund manager has been organizing its 360 days investment seminar every year since 2008 to educate the public in general financial planning, as well as focusing on unit trust investment. Sabri opines that these efforts indicate that the government means business in providing an adequate education platform to make the public aware of the importance of financial management. None of the above government initiatives focusing the younger generations such as student at college/university level, let alone students at the primary and secondary school.

Achieving personal financial wellbeing is important not only to individuals, but also at a national level, it contributes to the efficiency and prosperity of the national economy. In July 2010, BNM responded to the invitation by the International Network on Financial Education (INFE), which is a network of the Organization for Economic Co-operation and Development (OECD) to provide internationally comparable statistical indicators on financial literacy. In the participating countries, the survey is to be conducted following the standardized questionnaire and guides proposed by OECD/INFE (2011). Through this cooperation, comparisons between the participating countries concerning the current level of financial literacy can be made, while at the same time, room for improvement can be identified that paves the way for better policies. These policies may be tailored towards empowering individuals to be well-informed when making financial decisions that fit the circumstances of their own lives. Thus, being financially literate would give them choices, helps to protect them from unexpected events, fraud and scams, and enables them to have a voice as consumers and citizens of a nation. As improving the level of financial literacy among the public is a national concern, views from different organizations will be useful for the related parties to plan future actions (Ali, Rahman, & Bakar, 2014) .

Moreover, several earlier studies of financial literacy in Malaysia such as Ibrahim et al. (2010), Fazli & MacDonald (2010), and Albeerdy & Gharleghi (2015) targeted college students, while Boon et al. (2011), Idris, et al (2013) and Ali et al. (2014) targeted working individuals in Malaysia. Therefore, this paper aims to suggest a study among the college students across Malaysia, it is strongly hope that through this paper, it will be able to provide important additional insight into the issue of financial literacy. Since the previous literature on financial literacy in the Islamic context is very minimal, the expectations on findings for future research may contribute as a good platform in expanding the research on Islamic financial literacy in Malaysia. The future research may contribute additional views on the present condition of financial literacy particularly in the Islamic context of Malaysia.

IV. THE IMPACT OF FINANCIAL LITERACY AMONG YOUTH

Financial illiteracy is a growing problem (Sabri, 2011). Current world economy crises could be prevented by increasing public financial literacy. As cited by Sekita (2011), the low level of financial literacy is linked to poor financial planning and retirement planning in numerous previous studies, for example, Rooij, et. al. (2011) for Netherlands, Bucher-Koenen and Lusardi (2011) for Germany, Lusardi and Mitchell (2011) for U.S., Klapper and Panos (2012) for Russia, Agnew et. al. (2013) for Australia, Johansson, et. al. (2014) for Sweden, Clark, et. al. (2014) for U.S., and Boisclair, et. al. (2014) for Canada.

Previous studies above revealed the lack of preparedness and low financial literacy level among people around the world leads to current worldwide economic crisis. Studies have shown that the level of financial skills and knowledge among the majority of people especially among young people, is low even in advanced societies of developed countries. One of the important points in the financial literacy is having low level in financial skills and knowledge which causes making wrong decisions that harm not only individuals but also affected societies financial well-being. Thus, increasing financial educations not only improve the financial literacy level of participants, but also improve their economics status.

As revealed by Sprow (2010), increasing financial educations not only improve the financial level of participants, but also improve their economics status (as cited in Rahmandoust et al., 2010). Younger generation such as students are considered economic engines of each society and the financial stability rate of success among adults could be improved by increasing financial literacy starting from younger age. In addition, since adults' financial success can significantly lead to sustainable development within society, younger generation financial literacy strength is one of the major roles by policy makers. According to the focus of previous researchers, most of the people with financial problems has necessarily with low level in financial literacy. It seems that poor people who do not have financial knowledge, needs financial literacy skills in order for having a safer life in today's modern economic world. For example, a study by Little (2014) indicated that one of the major problems in the United States is the large amount of consumer credit card debt.. Another example from the study by Nguyen (2013) which pointed out a few people are unable to save due to debt accumulation. While, Rosacher, Ragothaman & Gillispie (2009) revealed that financial behaviors impede an individual's ability to accomplish long-term goals; for example, owning a home, obtaining a higher education, and financial retirement (as cited by Little, 2014).

Mahdzan & Tabiani (2013) explained that the level of financial literacy had a significant, positive impact on individual saving. In addition, saving regularity, gender, income and educational level influenced the probability of saving positively. Results of this study suggest that it is important for policy makers to increase financial literacy of households by implementing various financial education programmes, to further influence saving rates at the national level. Future researchers may also explore further the effects of financial literacy interventions on elementary and middle school students' financial literacy (Little, 2014).

Fox, Bartholomae, & Lee, (2005) gave their opinion regarding the need for financial education among Americans was often demonstrated by alarming rates of bankruptcy, high consumer debt levels, low savings rates, and other negative outcomes that may have been the result of poor family financial management and low financial literacy levels (as cited by Kehiaian, 2012). In order to increase students' financial literacy scores, additional courses are needed to teach students the necessary skills and knowledge to make better financial decisions and practice better money management skills (Huang et al., 2013; Remund, 2010). Financial courses are resources that allow students to thrive in an increasingly competitive and complicated economy. The financial and tax literacy can potentially increase financial independence during retirement (Roux, 2017).

The former Governor of Central Bank of Malaysia, Tan Sri Zety Akhtar Aziz pointed out several years ago that in order to make Islamic financial products acceptable to a wider spectrum of investors and business people alike, financial literacy on Islamic financial products need to be enhanced (BNM,2006). This is to facilitate transactions, with a clear understanding and appreciation of the unique characteristics and features of Islamic finance and its real economic value. However, to date there is scarcity in the studies of Islamic financial literacy in Malaysia. This is proven when Kayed (2008) queries if there are any attempts by the research community to assess levels of Islamic financial literacy in various Muslim communities. In addition, Ahmad (2010) also points out the importance of Islamic financial literacy. These issues have actually motivated the current study to review available literatures on financial literacy mainly focusing on the Islamic financial literacy (Abdullah & Anderson, 2015). Additional research involving financial literacy is necessary. This paper suggests that future reseach should focus primarily on students' financial literacy in Islamic context and may provide further insights into the effects of Islamic financial literacy intervention on students at college level.

V. CONCLUSION

According to previous literature, research on the Islamic financial literacy relatively scarce. This paper suggests filling this gap by studying the extent of the relationship between Islamic financial literacy and its influence towards young adult in Malaysia. It is strongly hope that this paper will not only contribute significantly towards the literature of Islamic finance but also it will help to build a universal financial framework that financial educators, credit counselors, and debtor educators would use to improve financial literacy that parallel with Islamic teaching. Academic researchers can increase their understanding of youth's financial literacy, hence significantly contributed to the development of financial empowerment program.

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