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FINANCIAL WELL-BEING AMONG YOUNG ADULT IN KLANG VALLEY

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Abstract

The issue of financial wellbeing is an issue across the globe. According to Malaysian Department of Insolvency, the number of Malaysians that were declared bankrupt is 264,127 up until April 2023. Furthermore, young adults, specifically, according to current Consumer Research and Resource Centre (2012) statistics, have less knowledge and awareness, particularly in terms of personal financial responsibility. Therefore, this study aims to understand the determinants of financial wellbeing among young adults with specific focus in Klang Valley. Three variables were tested against financial wellbeing among young adults, which are financial literacy, financial socialization, and financial behaviour. This study is a quantitative study with 155 respondents involve in this study. The data was analysed using SPSS Version 23. The findings reveal that, all the variables are significantly associated with financial wellbeing among young adults. Future suggestions include implementing financial education in school, financial counselling towards young adult and the utilisation of digital applications for financial managements and improve financial literacy among young adults.

Keywords: financial wellbeing, financial literacy, financial socialization, financial behaviour

1. INTRODUCTION

According to Malaysian Department of Insolvency, the number of Malaysians that were declared bankrupt are 264,127 up until April 2023. Between 2018 and May 2022, nearly 60% of individuals who were declared bankrupt were between the ages of 25 and 44. The rising cost of living in Malaysia has caused individuals and households to be more concerned about their financial management. Recent economic shifts have had an impact on how people spend their money. Save, invest, and manage risks to protect their way of living, particularly in the long run. According to the Malaysian Department of Statistics (2021), the overall population of Malaysia was 32.7 million (including non-Malaysian nationals), with ethnic groups including Bumiputera (69.8%), Chinese (22.4%), Indians (6.8%), and others (1.0%). Malay hold the highest bankruptcy rate with 58.14% as stated in Malaysian Department of Insolvency. This shows that the Malay community financial wellbeing are low. Besides, Selangor and Wilayah Persekutuan hold first and second place for the number of bankruptcies in Malaysia.

Young adults, according to current Consumer Research and Resource Centre (2012) statistics, have less knowledge and awareness, particularly in terms of personal financial responsibility. It is apparent that 15% of young employees did not have any savings and that 37% lived beyond their means. Furthermore, 50% of people seeking financial advice from the Credit Counseling and Debt Management Agency (CCDM or AKPK) are under the age of 40, and 77% of young workers say their ability to manage their own finances is limited. According to Malaysian Department of Insolvency statistics, from 2005 to June 2012, there were 243,823 bankruptcy cases administered, with hire purchase debts being the most common cause of bankruptcy (30.451 cases), followed by personal loans (18,053 cases). Bankruptcy can be defined

as persistent or deteriorating financial difficulties, with some financial difficulties contributing to personal medical or mental disorders, which may limit job productivity. Unlike in the past, the financial system of the twenty-first century has evolved swiftly and become increasingly complicated (Hilgert & Hogarth, 2002).

There are numerous factors that contribute to financial difficulties. Poor financial behaviours are frequently accompanied with personal financial problems, and one of the causes of personal financial problems is the individuals' financial illiteracy (Lusardi & Tufano, 2009). Aside from that, a combination of financial issues such as high debt, low income, and low levels of financial skill can have a negative impact on an individual's financial well-being. The concept of well-being or people's perceptions of well-being can vary and depend on changes in people's lives. Previously, well-being was defined as overall contentment or satisfaction with one's financial situation or assets. However, the concept of well-being has now been enlarged to include both material and non-material components of a person's view, such as their financial situation, ability to meet demands, and feeling safe, comfortable, and content with their income. This is because financial problems caused by living beyond one's means, being inconsistent in saving, and failing to set financial priorities such as putting money aside for an emergency fund, not having life insurance, and not participating in a retirement plan can all have an impact on one's financial well-being.

Therefore, this study is interested to explore the level of financial wellbeing among young adults and to identify the relationship between financial literacy, financial behavior and financial socialization with financial well being among young adults.

2. LITERATURE REVIEW

Theory of Planned Behaviour

Theory of Planned Behavior (TPB) has been widely used in research related to financial behavior. According to Xiao (2008), the TPB is the most suitable theory related to financial behaviour as it predicts and understands human behavior and it explains an individual's intention to perform given an accepted behavior. TPB highlights the factors of an individual's real behavioural choices. In short, a person will always assess the outcomes of his or her behaviour and that assessment forms the person's attitude. TPB is applied in order to examine the deeper beliefs that influence a person's financial behavior. Thus, it is vital that strategies for assisting individuals in adopting positive financial behaviours be researched and developed (Satsios & Hadjidakis, 2018).

Financial Wellbeing among Young Adult

Finance can be defined as the practice of obtaining and managing money such as investing, borrowing, lending, budgeting, saving, and forecasting (Kolakowski, 2019). Personal finance is known as individual finance. It is the management of a person's assets and debts. Personal finance determines how to manage income, pay off debt, budget the spending, and invest in the markets. Personal finance matters also include taxes, banking, credit, loans, as well as insurance.

Young adults began concentrating on personal financial management without the control from their parents while they started working. In that period, they enter new life experiences at the age of developing their skills and shaping their personal well-being in the present and the future. Young adults' financial well-being is significant, because the financial well-being of young adults has an important influence on their financial well-being on overall life satisfaction.

Financial well-being on an individual level is known as able to control and manage day-to-day finance. Control here means not having debt and being able to pay the bills within the specific time given. It is when a person feels secure in their financial status and allows them to enjoy life. According to Munohsamy (2015), personal financial management is the process of controlling money coming in, and the use of money to fit expenses in a systematic way and utilizing income. Sabri & Falahati (2012) defines financial

well-being as being in a good financial state, happy, and free from worry, which is based on a subjective appraisal of one's financial situation. They also posited several domains of financial well-being: buying behaviors, perception of current finances and perception of the financial future. It can also be defined as the happiness and life satisfaction that income and wealth provide (Sass et al., 2015).

Other than that, financial well-being is when a person can manage the unexpected events that affect the financial or known as financial shock. It can be in terms of absorbing the financial shock by having financial savings and being able to access family and friends to seek financial support. Financial well-being is also when an individual is able to meet financial goals which are based on the needs of the individual as well as being confident with his or her financial. The well-being of financial also can be said as having financial freedom that allows them to enjoy life to the fullest. Individuals are restrained in having financial freedom when there is a lack of financial resources that limits basic life choices. Freedom comprises the ability to have a proper meal, have more quality time with family and other basic choices to be a component of financial well-being (Collins, 2018).

Based on a study by Zemtsov & Osipova (2016), the term personal well-being is suitable to speak about individual well-being, one of which consists of financial well-being. This study also stated that financial well-being is defined by financial behaviour and income flow generated by basic assets. Financial capability, financial attitudes and financial management can affect individual behaviour towards financial. Personal well-being is closely related with financial behaviour, financial attitudes, financial goals as well as financial management. Financial well-being also refers to a financial status in that an individual has sufficient resources to live a comfortable life. If the financial is properly manage and doing well it will affect to the better financial status (Jing, 2016).

Financial socialization agents could achieve personal financial well-being because skills and knowledge towards managing finance can be obtained from internal and external environments. Meaning that they can get help from parents and colleagues in order to gain attention, learning about finance at seminars about finances, a good friend, and the media to give positive information about personal finance. Positive financial socialization can make young adults pay more attention to the use of money so that they can feel better (Albeerdly & Gharleghi, 2015).

Young adults' perceived economic well-being can be described by how they felt about their level of income, debt and savings, ability to handle financial emergencies, and amount of money available for necessities and future needs. It shows that a good financial situation of young adults can make them able to have good financial health which allows them to meet their wants as well as affordability to spend. They also have savings for any emergency needs (Sabri & Falahati, 2012). Most of the young adults have difficulty with their finances which worries them so much. This is because young adults lack financial management in terms of planning, so it can lead to wasteful behaviour.

According to the Setiyani & Solichatun (2019), people who have poor financial management skills and lack of money to buy daily basic needs tend to have lower financial well-being. So, if individuals have a good financial capability in making financial decisions, they tend to achieve financial well-being. If the level of financial capability of young adults is getting better, then the financial well-being of students will also improve. Vice versa, if the level of financial capability of young adults is getting worse, then the financial well-being of students is also getting worse.

This study uses a theoretical approach to describe financial well-being that is the theory of lifespan development and the theory of subjective well-being. Theory of lifespan development lifelong psychological development that involves learning about the constancy and behavioral changes along life, from conception until death (Baltes, 1987). For the indicators of successful development, the theory of lifespan development in this study will focus on cognitive development and influence of non-normative life that forms the behavioral habits of individuals and will provide welfare for individuals' finances.

The theory of subjective well-being can be understood as in a good mental state, including all of the various evaluations, positive and negative, that people make of their lives and the affective reactions of

people to their experiences (Fabian, 2018). It is the general definition of subjective well-being which highlights the good mental condition and the term all the various evaluations that people make of their lives have been broadly defined. Other than that, it also can be defined as a blend of positive and negative effects and life satisfaction is standard in the field. According to Zemtsova & Osipova (2016), there are several types of subjective well-being which are physical well-being, psychological well-being, financial well-being and personal well-being. This study will focus on financial well-being.

The use of market mechanisms to manage life and income is possible with a certain amount of income. There is a level of income that is more focused about survival. The survival of individuals in order to achieve overall life satisfaction. The terms “financial wellness”, “financial satisfaction” can be used for the well-being of the finance. It consists of four sub-components: objective status; financial satisfaction; financial behavior; and subjective perception. Financial well-being taps into the broader range of subjective and objective dimensions as financial wellness does, but has invariably been operationalized as a subjective measure only, more in keeping with financial satisfaction. Financial behavior, financial literacy, financial preferences and values and financial management could form the financial well-being. Hence, financial literacy, financial behavior as well as financial socialization could affect the financial well-being of young adults (Setiyani & Solichatun, 2019). This is because financial well-being can be achieved if the individual has a good financial capability in making financial decisions.

Financial Literacy

Many factors affect the financial well-being of the current young adults. The second factor that could affect the financial well-being of young adults is financial literacy. Financial well-being can be realized when the person has a good financial literacy in making financial decisions (Atkinson & Messy, 2012).

According to Van Campenhout, De Witte, & De Beckker (2019), financial literacy is defined as to improve and preserve financial well-being, rather than an end goal in itself. It means that having literacy in finance is for self-survival rather than just achieving the results later. The literacy in financial must be learned and adhered to so that an individual can survive in real life situations without only learning how to spend but also how to save or invest. By having good literacy, an individual can have a better financial well-being because he or she can adhere to the attitudes of maintaining financial well-being rather than only finding the end goal.

According to Herrero, Velasco & Campillo (2018), financial literacy is a fundamental understanding of financial concepts. Today, it is globally recognized as a vital life skill since consumers must be able to distinguish among an extensive variety of products, services, and providers of financial products to administer their finances successfully. Understanding how young adults can manage money well remains a crucial life skill that is needed for all aspects of adult life. It is becoming clear that preparation for life requires more than developing the ability to read and write and become technologically knowledgeable.

Financial Behaviour

Financial behaviour can be seen from the attitude of a person in managing the flow of money in and out, managing loans and investments. The concept of financial management at individual level such as planning, controlling and management can relate with the behaviour in finance. Individual's behaviour towards managing their financial can be influenced by good literacy in finance which leads to a positive direction. Other than financial literacy, family's social condition also plays a role in the students' financial behaviour. It means that the young adults develop their skills of behaviour through and based on their parents. The behaviour can be seen in the aspect of financial planning, saving and using the money behaviour (Herawati et al., 2018).

Financial planning can be defined as the fundamental management of the finance that determines what and how it is to be done. It requires thinking before action takes place. It helps to make a financial decision in advance in terms of the way to deal with the situation. Saving is needed for everyone for future use. This is because it is a process of putting aside a certain portion of money for future consumption.

Therefore, saving behavior is important in order to have a better financial well-being in the future. People's attitude on money may be influenced by how they act towards the money. Some people spend excessive amounts of money to buy unnecessary things and some will spend it very carefully to buy basic needs. So, it could reflect on the financial behavior of individuals.

According to Jing (2016), he stated that there are many theories for understanding individual behaviors and assisting a person in developing desirable behaviors. One of them is the theory of planned behavior which has been applied to consumer financial behaviors in recent years. The purpose of theory planned behaviour is to predict and understand human behaviour. It focuses on factors that influence individuals' actual behavioral choices. The theory of planned behavior focuses on a person's motivation and ability, both factors that determine an individual's actual behavioral choices. According to this theory, behavioral intentions are influenced by three antecedents: (1) the positive or negative valence of attitudes about the target behavior, (2) subjective norms, and (3) perceived behavioural control (Ajzen, 1991). The intention is a measure of the strength of one intention to perform a certain behavior. The concept that can be used is, the stronger the intention of a person to perform a particular behavior, the higher the possibility to perform that action (Bruvold, 1990). It is believed that the person's intention to perform or not to perform specific action depends on the function of two basic factors which is the personal factor that can be referred as an attitude towards the behavior, and social influence factor that is referred to as subjective norms.

Financial Socialization

The first factor that has an influence on financial well-being is financial socialization. Albeerdy & Gharleghi (2015) said financial socialization is the process of obtaining the skills, knowledge and attitudes of the inner and exterior environment that is desired to maximize the role of consumers in the financial markets.

Financial socialization is defined as “acquiring and developing values, attitudes, standards, norms, knowledge, and behaviors” that specify the context for an individual's way of practicing their financial (Rea, 2017). It highlights financial socialization is not simply getting knowledge on how to successfully administer economic transactions but rather it includes the development of attitudes, values, and standards that will support or hinder financial capability and well-being (Rea, 2017). Financial socialization influences the financial well-being of individuals.

Scholars believe that the socialization process started in early childhood and continue throughout the life cycle of the individual and most adults learned since childhood. This can be seen especially when individuals obtain behavior and social role in the rest of their lives (Mohamed, 2017). Most individuals obtain financial knowledge and form financial behavior through interaction with socialization agents like parents and peers during their childhood based on a bunch of previous studies. This can clearly be seen through observation as well as through social interaction. Parents and peers play a huge role in influencing financial socialization of an individual which shall lead to financial well-being (Mohamed, 2017).

3. METHODOLOGY

Sample Size

According to the Department of Statistics Malaysia (2021) the total population of young adults in Klang Valley is 3850,900 (Selangor, W.P Putrajaya and WP. Kuala Lumpur). As stated by Sekaran (2010), the author quoted the sample size as proposed by Krejcie and Morgan (1970); the proposed sample size for this study is 384 respondents. The total population of young adults in Klang Valley which is divided into three; Selangor is 3,036,200, Kuala Lumpur 761,700 and Putrajaya 50,000.

Data Collection

The data collection will be obtained through the distribution of questionnaires to the young adults around Klang Valley, specifically Selangor, W.P Putrajaya and WP. Kuala Lumpur. Every questionnaire will be

provided which requires the respondents to answer all questions in the questionnaire within the time period. The questionnaire will be in English language as English is a language that is used by everyone and easy to understand by young adults. As this study is only for academic purposes, all the information will be revealed to any outsiders in order to protect the privacy of the respondents.

Data Analysis

In order to determine the relationship between independent variable and dependent variable, the data was analysed using SPSS Version 25. In order to identify the relationship, Pearson product moment correlation was used to analyzed the data.

4. RESULTS AND DISCUSSION

Level of Financial Wellbeing among Young Adult in Klang Valley

Based on the findings, the mean for financial well-being was moderate at 3.5444. This indicated that the young adults have a moderate level of financial well-being. This finding is supported by Sabri, Cook and Gudmunson (2012) where the researchers found that good financial literacy, good financial behavior and good financial socialization influenced financial well-being of young adults with positive results. All three independent variables affect financial well-being among young adults. This finding is also supported by Setiyani & Solichatun (2019) where high levels of financial literacy, financial behavior and financial socialization can lead to financial well-being among young adults.

Relationship between financial literacy, financial behavior and financial socialization towards financial well-being among young adults in Klang Valley

For this objective, the researchers used Spearman's Correlation Coefficient, which is ranging between $-1 < r < 1$ to identify the relationship between independent variables (financial literacy, financial behavior and financial socialization) towards the dependent variable (financial well-being among young adults). The first relationship between financial literacy and financial well-being among young adults displayed a positive and strong relationship between both variables with and there is a significant relationship between financial literacy and financial well-being among young adults since $p=0.000 < 0.01$. The positive correlation between the variables means that as one variable increased the other variable also increased and vice versa. This means when the financial literacy among young adults increased, the financial well-being also increased. Based on findings, an alternate hypothesis was accepted (H_{a1} : There is a significant relationship between financial literacy and financial well-being among young adults). As a result, there is a significant relationship between financial literacy and financial well-being among young adults as it showed the value of ($r=0.656$, $p < 0.01$). Based on the findings, Mohamed (2017) has stated that financial literacy shows a relationship with financial well-being among young adults. Joo and Grable (2004) indicated that financial literacy had a direct effect on financial well-being. The study also found that there is a positive relationship between financial knowledge and financial well-being and revealed that the participants who received a high score in financial knowledge tend to show a high score in financial well-being (Hogarth et al., 2002; Joo & Grable, 2004).

The second relationship between financial behavior and financial well-being among young adults showed a positive and strong relationship between both variables and there is a significant relationship between financial behavior and financial well-being among young adults since $p=0.000 < 0.01$. The positive correlation between the variables means that as one variable increased the other variable also increased and vice versa. This means when the financial behavior among young adults increased, the financial well-being among young adults also increased. Based on findings, an alternate hypothesis was accepted (H_{a1} : There is a significant relationship between financial behavior and financial well-being among young adults). As a result, there is a significant relationship between financial behavior and financial well-being among young adults as it showed the value of ($r=0.608$, $p < 0.001$). Based on the findings, Starobin et al. (2013) proves that financial behavior has a significant influence on the financial well-being of young adults. The other study by Gutter & Copur (2011) proved financial behavior has a positive and significant impact on financial well-being.

Next, the third relationship between financial socialization and financial well-being among young adults in Klang Valley showed a positive and moderate relationship between both variables and there is a significant relationship between financial socialization and financial well-being among young adults since $p=0.000<0.01$. The positive correlation between the variables means that as one variable increased the other variable also increased and vice versa. This means when the financial socialization among young adults increased, the financial well-being among young adults also increased. Based on findings, an alternate hypothesis was accepted (Ha1: There is a significant relationship between financial socialization and financial well-being among young adults). Based on these findings, Rea (2017) proved that financial socialization influences financial well-being among young adults. This can be seen where the relationship between financial socialization and financial well-being among young adults showed the value of ($r=0.324$, $p<0.001$). The researcher also stated that parents as agents of socialization who socialize more with their children have a higher tendency for their children to have better financial well-being. Mohamed (2017) found that financial socialization has directly influenced financial well-being.

5. CONCLUSION

In a nutshell, the researchers are focused on examining the financial well-being among young adults in Klang Valley areas. The result of the reliability test for pilot and actual study is on a good range. In addition, the result from a research study showed that financial literacy is the most contributing variable towards financial well-being among young adults in the Klang Valley areas.

From that, all of the objectives in this research study have been achieved by the researchers. The first objectives in this research study indicates the level of financial well-being among young adults in the Klang Valley area. The second objective of this research study has been achieved by using Spearman's correlation in order to examine the relationship between dependent variables and independent variables.

Besides, all of these three hypotheses were accepted because all relationships between independent variables and dependent variables were shown that null hypotheses were rejected with significant relationship. The study, however, encountered limitations, including uncooperative respondents during survey and limited literature directly related to the research topic. Despite these limitations, the research provided valuable insights and knowledge that can aid the young adults in Klang Valley in managing their financial well-being. The findings can also be utilized by the government to enhance the financial well-being of young adults in Malaysia, ultimately benefiting all people and improving their quality of life.

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