

## Conference Paper

# Empirical Investigation on Attitude towards Personal Loans Borrowing

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### Abstract

In Malaysia, people enjoy various benefits provided by government such as first housing loan, medical benefit, various incentives and others. Even they obtain a lot of benefits; however, the statistics shows that the household debt keep increasing as the ratio of household debt to GDP of Malaysia increased from 62.7 percent in 2008 to 76.6 percent in 2011 and 84.6 percent in 2017. In addition, a debt service ratio of 30 percent is acceptable; however, the Malaysian household debt service ratio was 9.1 percent in 2006, rose to 49.0 percent in 2009 and dropped slightly to 47.8 percent in 2010. This indicates that approximately half of a household's income used to pay their debts. As a result, after paying off the debt, the balance to spend on education, transport, food, and for emergencies become smaller. Additionally, an investigation of the ratio of household debt to disposable income, Malaysian ratio is 140.4 percent, and is identified as one of the highest in the world. It indicates that the loans taken are on average 1.4 times more than household income for each household in Malaysia. Therefore, the objectives of this study are to investigate the determinants that contribute to person's borrowing loans; however, this study focus on the borrowing personal loans as it is one of main contributor to increase the household debt. Five determinants are identified which are as follows: knowledge about personal loans, media awareness, and perceptions toward personal loans, family influence and religious/ethic belief. Questionnaires were distributed to the 100 respondents. The sampling procedure adopted was stratified random sampling. The data obtained were analyzed using SPSS 20.0 which involves scale reliability, descriptive and regression analysis. The result indicates that media awareness and religious/ethic belief becomes the important determinants that influence the personal loans borrowing. Moreover, religious/ethic belief is found to be the best predictor that influences the person's borrowing the personal loans. This study advances current knowledge by adding alternative insights to determinants of borrowing personal loans.

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## 1. Introduction

Personal loan is enabling to buy goods and services. Basically, loan means we buy goods on the credit basis. It has a long tradition in the Western banking world [1]. Personal loan can be defined as money that a person borrows from a bank or other financial organization for the personal use [2]. Personal loans are a type of consumer financing provided by lenders such as banks and financial institutions to assist consumers with short-term shortage in personal finances. It is for purchasing big items, for family used, and/or other household big expenses [2]. Such loans are either secured by the asset purchased such as collateral or by a related individual who acts as the guarantor or unsecured [2]. A personal loan is usually charged a flat interest rate and the rate is usually rank based on loan tenure or loan financing amount. All accrued interest is payable as part of monthly instalments and these monthly repayments are to be paid until the end of the loan tenure [2]. In addition, the loan granted for personal, family or household use, as opposed to business or commercial use. In fact, to the extensive availability of personal loan is because of the growth of consumer goods markets and the high standards of living. Much is known about the personal loan services in Western countries. However, not too many studies are available on this topic in the context of developing countries [3].

In Malaysia, people enjoy various benefits provided by government such as first housing loan, medical benefit, various incentives and others. Even they obtain a lot of benefits; however, the statistics shows that the household debt keeps increasing as the ratio of household debt to GDP of Malaysia increased from 62.7 percent in 2008 to 76.6 percent in 2011 [4]. In addition, a debt service ratio of 30 percent is acceptable; however, the Malaysian household debt service ratio was 9.1 percent in 2006, rose to 49.0 percent in 2009 and dropped slightly to 47.8 percent in 2010 [4]. This indicates that approximately half of a household's income used to pay their debts. As a result, after paying off the debt, the balance to spend on education, transport, food, and for emergencies become smaller. Should the employed person lose his job or fall sick, the family will face the difficulties to fulfil the expenses, therefore can contribute to loans defaulted. Additionally, an investigation of the ratio of household debt to disposable income, Malaysian ratio is 140.4 percent, Singapore at 105.3 percent, USA at 123.3 percent and Thailand at 52.7 percent and Malaysia is identified as one of the highest in the world [5]. It indicates that the loans taken are on average 1.4 times than household income for each household in Malaysia [5].

In view of the fact that both the household debt service ratio and the household debt to disposable income are higher than acceptable figures, the lower income group is expected to face the difficulty to pay off their monthly payments. Expenses using loans can boost economic growth; however, it can also slow the economy. It is because when households are forced to control spending in order to pay their debts. Thus, the objectives of this study are to investigate the determinants that contribute to person's borrowing loans. However, this study focus on the borrowing personal loans as it is one of the main contributors to increase the household debt. The following section considers previous studies relevant to personal loans borrowing and the hypotheses development, while section 3 considers the details for the methodology necessary to attain the study objectives. Most importantly, section 4 analyses the findings generated from the survey work. In the section 5, a further discussion of results and study implications are highlighted in order to gain more understanding on determinants of personal loans borrowing, followed by a conclusion.

## 2. Theoretical Background and Literature Reviews

Personal loans basically same meanings like a credit term basis. Credit means lending to households and businesses to carry out transactions in the economy [1] and it includes personal loan and mortgage credit [1]. Personal loan is made up of loans granted for a specific purpose and credit granted for general use [1]. Personal loan scheme is incepted by banks and widen out very quickly towards other banks. From the perspective of customer, personal loan is easy to get, that payment through instalment, no cash collateral or security, relaxed terms and conditions are the key points. Usually, personal loans will take by the individual that from such as business, government job, private job and rest of the occupation as others such as housewife, and self-employed. The study by [6], examines the impact of loans on borrower income.

Managing personal finances has become increasingly important in today's world [7]. People must make a decision on short-term savings and borrowing for a vacation, a down payment for a house, a car loan, and others [2], [7]. In addition, they must manage their own medical and life insurance needs as well as plan for long-term investments for their retirement and children's education [7]. Unfortunately, studies have shown that most Americans have insufficient knowledge of managing personal finances. They fail to make correct decisions because they have not received a sound personal finance education [2], [7]. Therefore, we postulate:

**H1:** There is a significant relationship between knowledge and borrowing personal loans.

Media can be divided into mass media and electronic. A study by [8], evaluated the effectiveness of sources to engage the awareness amongst young people [9]. They are using internet as a medium to repay their loan on time frame. Accordingly, awareness on the importance of the complexity of the financial world and financial skills is also imperative to ensure money borrowed is being managed efficiently [10]. Media play the important role as a medium to deliver the information. Therefore, we make the following hypothesis:

**H2:** There is a significant relationship between media and borrowing personal loans.

On the other hand, perceptions towards loans borrowing influence people to used personal loan as their way to solve their insufficient money demand. Moreover, they perceived that the government regulation will affect the influencing of the personal loan among individual person [11]. Lender will supply the credit to borrowers to repayments uncertainty depending on the future value of their collateral and default losses occur when the value of collateral falls below the principal and interest outstanding on the loan. In addition, a study by [11], the reasons for borrowing also relates to limited access to rural customers, savings facilities is not friendly, services cost is too high, lack of active competitions, financial non-viability of institutions, and inability to expand services as well as to create opportunities [12]. Nevertheless, some have suggested that people do not make use of available funding possibilities because they are unaware they exist [13], or because of transaction costs arising due to the complexity of the application process [14].

**H3:** There is a significant relationship between perceptions towards loans and borrowing personal loans.

Another factor that can influence people towards borrowing loan is from family itself. A study by [15], family influenced individual to used personal loan. In addition, family also plays an important role [8] on influencing people to repay their loans. On the other hand, a study by [16], revealed that family participation negatively affected the relationships of start-up capital with business outcomes both in China and in Germany. It is not only evident in individualistic cultures such as Germany but does also apply to collectivistic Chinese businesses [16]. Therefore, we make the following hypothesis:

**H4:** There is a significant relationship between family influence and borrowing personal loans.

Every religion comes with a set of religious needs that influence the members of that religion [17]. For instance, the wealthy in terms of possession and power in order to legitimate their good fortune in the eyes of God, so that their wealth is a deserved one. In the context of loans borrowing the religious as well as ethic belief can influence the decision to borrow loans and to make repayment [8]. Therefore, we make the following hypothesis:

**H5:** Religious/Ethic belief has significant relationship with the personal loans borrowing.

Following from the discussion in the previous section, the following theoretical model is developed as presented in Figure 1.

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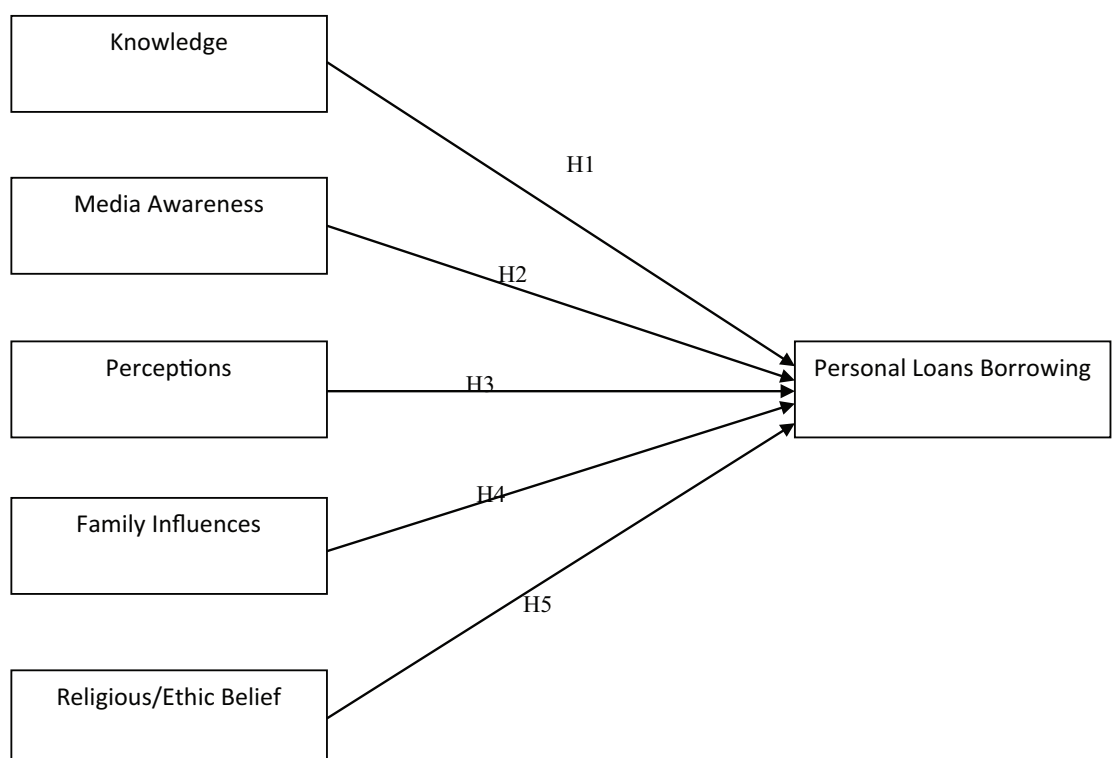


Figure 1

This study is deriving the theoretical framework from the Theory of Reasoned Action [18]. The foregoing of literature review in this study were forms as a basis for developing a theoretical framework. Consistent with the conceptualization of this study which is used the Theory of Reasoned Action.

### 3. Methodology

In this study, determinants of personal loan borrowing were obtained by distributing a questionnaire to a sample of 100 respondents at XXX Company. The sampling procedure adopted for this research was stratified random sampling. Concerned with the sampling frame, Human Resource Department of XXX Company conveniently provides the list of employees for the purpose of data collection. We extend the disproportionate of stratified random sampling. We employ SPSS 20.0 in order to conduct frequency analysis, descriptive analysis, reliability and multiple regressions' analysis. Frequency analysis is used to extract the percentile of the profiles of respondents in terms of their gender, ethnics, age, religion, marital status and monthly income obtained. Mean and standard deviation are computed for descriptive analysis. The reliability test is used to examine the internal consistency among the items in their respective factors. The multiple regression analysis is particularly used to test the hypotheses proposed earlier.

### 4. Empirical Result

#### 4.1. Respondent's profile

As presented in Table I, respondents in this study are equal which male represent 50.0 percent while female represent 50.0 percent. For ethnic, 75.0, percent are Bumiputra; 19.0 percent are Chinese and 4.0 percent are Indian. Out of 100 respondents, 2.0 percent represent age less than 20, 38.0 percent represent age from 21 to 30 years and 48.0 percent represent age from 31 to 40 years, and only 12.0 percent above 40 years. Most of the respondents are Muslim with 72.0 percent followed by Buddhist 13.0 percent, Hindu 6.0 percent and Christian only 5.0 percent. Next, most of the respondents are married with 62.0 percent while the least respondents are single with only 38.0 percent. Further, this study found respondents that have degree represent 76.0 percent whereas only 12.0 percent that has STPM/Diploma qualification. Based on qualification, 76.0 percent of the respondents are degree holder, 7.0 percent

master and 12.0 percent that has STPM/Diploma qualification while only 5.0 percent of the respondents are involved in other qualifications. Subsequently, most of the respondents earned RM4000 and above monthly with 71.0 percent while the least respondents earned between RM1000 to RM3000 with 11.0 percent.

TABLE 1: Respondent's Profile

		Frequency	Percent
Gender	Male	50	50
	Female	50	50
Ethnic	Bumiputera	75	75
	Chinese	19	19
	Indian	4	4
	Others	2	2
Age	<20	2	2
	21-30	38	38
	31-40	48	48
	>40	12	12
Religion	Muslim	72	72
	Buddhist	13	13
	Hindu	6	6
	Christian	5	5
	Others	4	4
Marital Status	Single	38	38
	Married	62	62
Education Level	SPM	5	5
	STPM/Diploma	12	12
	Degree	76	
	Master	7	
Monthly Income	RM1000-RM3000	11	11
	RM3001-RM4000	18	18
	>RM4000	71	71
Types of Banks for Loan Borrowing	Bank Islam	15	15
	RHB	14	14
	Maybank	32	32
	Others	39	39

Source: Developed for Current Study

## 4.2. Descriptive analysis

Table II illustrates the descriptive analysis results. Firstly, the item of 'managing loan' score the highest of 3.61; meaning that it is the most influence factor for knowledge

variable. The standard deviation of 1.01 shows how much variation or dispersion exists from its mean. Second, for media awareness, the item of 'Radio' scores the highest of 3.96. It shows that most of the respondents get information about personal loans from the radio. The standard deviation of 1.09 shows how much variation or dispersion exists from its mean. Next, the highest mean for perceptions is 'limited access' which is the score of 3.33. It shows that most of the respondents indicate that they have limited opportunity to borrow personal loans. The standard deviation of 0.96 shows how much variation or dispersion exists from its mean. For family influence, 'relative' is the highest mean which is 3.77. The standard deviation of 1.07 shows how much variation or dispersion exists from its mean. Next variable is on religious/ethics belief which 'Debt must be repaid' scores the highest mean of 4.04. The standard deviation of 1.02 shows how much variation or dispersion exists from its mean. Further, the item 'trustworthiness' shows the highest mean is 4.54. The standard deviation of 1.14 shows how much variation or dispersion exists from its mean.

### 4.3. Reliability analysis

Table III demonstrates the result of reliability test, whereby the Cronbach's alpha reliability coefficient is obtained for the all variables. Most of the variables are above 0.60, and it is considered acceptable to measure for this study [20]. Out of six variables, five is above 0.60 and below 0.70, except for the religious/ethic belief with 0.73. The other variables which are personal loans borrowing, knowledge, perceptions, family influence and religious/ethic belief are 0.60, 0.67, 0.59, 0.66 and 0.67. The reliability of the measure indicates the stability and the instrument measure concept. In a nutshell, coefficient was obtained from all questions in Likert Scale are reliable.

### 4.4. Regression analysis

Multiple regression analysis is a statistical technique to predict the variance in the dependent variable by regress it with the independent variables, besides assessing the degree and character of the relationship between the independent variables with the dependent variable [19]. Table IV demonstrates the regression results. Knowledge is insignificantly associated with selection of personal loan borrowing ( $t = 0.69$ ,  $p = 0.48$ ). Hence,  $H1$  is not supported. It is also shown that media awareness is significantly related to selection of personal loan borrowing ( $t = 2.06$ ,  $p = 0.04$ ). Hence,  $H2$  is supported. It also suggests that perceptions are insignificantly associated with selection



TABLE 2: Descriptive Analysis.

Variables	Items	Mean	SD
Knowledge	Better interest rate	3.04	0.97
	Procedure and process	3.54	0.83
	Managing loans	3.61	0.86
	Number of individual	3.00	0.98
	High demand on products	2.83	1.01
	Widely acceptable	2.55	0.98
	Media Awareness	Television	3.25
Newspaper		3.24	0.83
Books and Magazines		2.81	1.02
Talk/Seminar		2.46	1.09
Radio		3.96	0.95
Internet Sources		3.35	0.92
Perceptions		Action taken by	3.18
	Limited opportunities	3.33	0.91
	No collateral	2.97	0.84
	Limited opportunities in the	2.96	0.96
	Higher cost to process	3.02	0.93
	Slow application process	2.29	0.91
	Family Influence	Parents	2.31
Siblings		2.66	0.93
Children		2.86	0.98
Father		3.57	0.97
Mother		3.38	0.91
Relatives		3.77	0.80
Interest rate offered		2.31	1.07
Religious/Ethic Belief	Debt must be repaid	4.04	0.70
	Financial aids	3.73	1.00
	Loans can help people	4.21	0.85
	Enabling to buy goods	3.80	0.88
	High ethic belief	2.90	1.02
	Strong religious spirit	3.79	1.01
	Personal Loans Borrowing	Trustworthiness	4.54
Ability to pay back		3.85	1.02
Borrower's expected		4.25	0.65
Eligibility of applicants		3.57	0.87
Rules affects price of		3.21	1.14
Interest rate offered		3.04	0.97

of personal loan borrowing ( $t = 4.93, p = 0.00$ ). Hence,  $H3$  is not supported. Family

TABLE 3: Reliability Analysis.

Variables	Cronbach's	Number of items
Personal loans	0.60	6
Knowledge	0.67	6
Media Awareness	0.59	6
Perceptions	0.66	6
Family Influence	0.67	6
Religious/Ethic	0.73	6

Source: Developed for Current Study

influence is insignificantly associated with selection of personal loan borrowing ( $t = -0.11, p = 0.91$ ), which indicates that family cannot influences individuals to borrow loan. Hence,  $H4$  is not supported. Further, Religious/Ethic belief is significantly associated with selection of personal loan borrowing ( $t = 2.69, p = 0.00$ ). This indicates that Religious/Ethic belief is a predictor in explaining selection of personal loan borrowing. Hence,  $H5$  is supported.

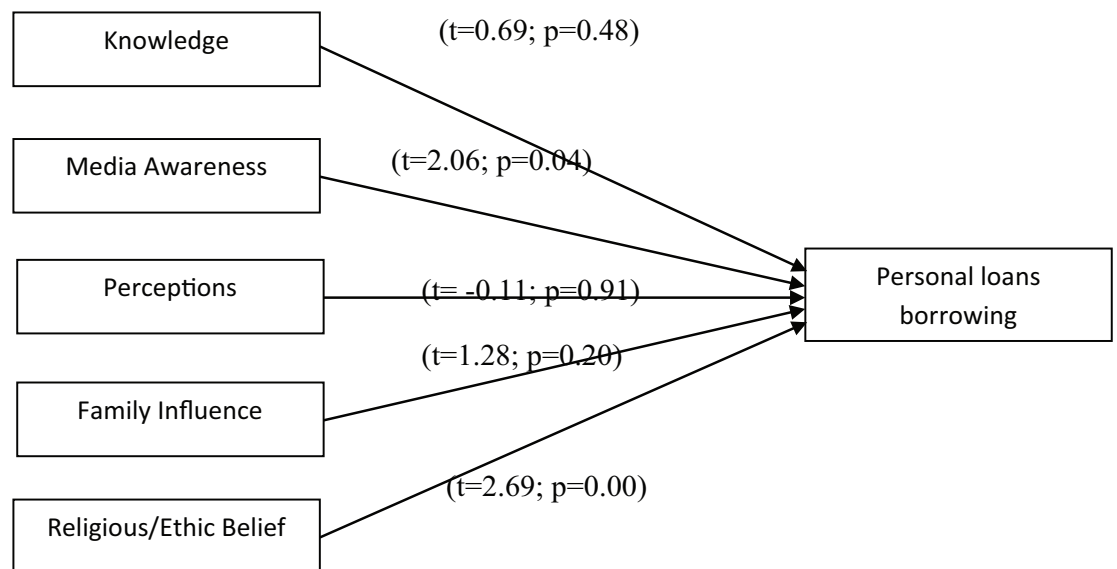


Figure 2

TABLE 4: Regression Results.

	Beta	t-value	P value	Supported?
H1	0.07	0.69	0.48	No
H2	0.24	2.06	0.04	Yes
H3	-0.01	-0.11	0.91	No
H4	0.12	1.28	0.20	No
H5	0.26	2.69	0.00	Yes

Source: Developed for Current Study

## 5. Conclusion and Recommendations

The purpose of this study is to investigate the issue with respect to the determinants of the personal loans borrowing. Results of this study suggest that media awareness and religious/ethics belief have the strong effects towards personal loans borrowing. Further, this study provides important implications toward practitioners in order to attract more people to involve borrowing personal loans. This study also advances current knowledge by shedding light on some important factors related to personal loans borrowing. This study explains the effects of knowledge media awareness, perceptions, family influence and religious/ethic belief. Needless to say, this study is one of the first to investigate the determinants of personal loans borrowing. It is worth noting that this study proposes a conceptual model as a framework to understand the determinants of personal loans borrowing. We suggest consideration of policies to imposed regulations that can relate to religious and ethics. In addition, the media can play important roles to promote the advantages of borrowing personal loans for investment to attain better living.

Despite of contributions, this study also has limitations. Firstly, the sample of this study is relatively small. Only 100 respondents involved in this study. Although this sample size meets the minimum requirement for multivariate analysis [20], larger samples are able to inflate the statistical power. Secondly, we choose only employees at XXX Company, which may explain that our findings may not generalize to employees in other sectors. Future studies thus are encouraged to include different samples to increase the generalizability of findings.

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