Factors Affecting Savings Habits within Millennials in Malaysia: Case Study on Students of Taylor’s University

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Abstract

The aim of this study is to investigate the major factors affecting savings habits within Millennials or Gen Y in Malaysia. According to the Department of Statistics, Malaysia’s household debt rose to a new high of 86.8% of gross domestic product (GDP) in 2013 from 80.5% in 2012, the highest among developing Asian countries (Bank Negara, 2013). Consequently, in 2012, the Department of Statistics reported that Gen Y carries a composition of 34 percent of the labor market in Malaysia. Studies show that Gen Y incline to struggle to save money and have very little understanding of financial planning. Recently, many studies have been done in Malaysia. A case study of a group Gen Y (at higher education level) proved that parental socialization is the major factor of influencing money habits spending among Millennials while self-dominance is the weakest factor (Hashim Hasni, 2014). This research will be focusing on a Business School group of students from various degree programs (Finance and Banking, Economic and Finance, Accounting and Finance as well as Business Administration) to identify the major factors influencing savings attitude in relation with independent factors using Pearson Correlations Coefficient Model. The results will proposed a new factor or changes in major factors affecting savings habits within millennials in Malaysia.

Key words: Millennials, Financial literacy, parental socialization, peer influences, Self-dominance, money habits
1. Introduction

According to Malaysian Youth Council (2014), there are 11.5 million youth aged 15 to 40 years in 2010 identified in the country. Of these, 71% of the population of youth aged between 18 and 30 years, while Generation Y, aged between 19 to 28 years is about 11.4 million people. In 2013, Statistics Department of Malaysia reported that total population between 15 - 40 years of age is equivalent to 13,528.8 million which is 45.5% of 29,714.7 Malaysia's total population. These statistics clearly show how much influence the youth to the country.

Subsequently, Central Bank of Malaysia (2013) also reported Malaysia’s household debt demonstrate increasing percentage 86.8% of gross domestic product (GDP) in 2013 after 80.5% in 2012, which is highest among developing Asian countries. Additionally, Malaysian Insolvency Department encompassed in an article published by Agensi Kaunseling dan Pengurusan Kredit (2014), with an 11% increase in the average number of monthly bankruptcies from year 2012 to 2013, an average of 1,812 Malaysians were declared bankrupt per month. Hence, the report highlighted among the ages of those declared bankrupt, over 47% are young adults aged between 18 to 35 years old specifically Gen Y. In fact, in Malaysia, the court regulation will only declare a person with debts of RM30, 000 and above for bankruptcy; conversely, this amount is simply referred to many young adults as being broke.

This study is focusing on the relationship of major factors influencing savings attitude among students as Gen Y at university level from finance background in relation with independent factors which are financial literacy, parental socialization, peer influences and self-dominance. This study will examined the main factors that may influence the saving behavior of Gen Y in Malaysia particularly Gen Y at university level in urban area. Additionally, the study also stressed on the relationship between savings behavior with financial literacy as well as decision making in financial planning.

2. Literature Review

2.1 Millennials or Generation Y

Referring to research by PrincetonOne.com (2013), Millennials or Generation Y are referred to as those born within the 1970s to the 1990s, and their numbers nearly 80 million worldwide in conjunction with the communities 'baby boomers' (those born within 1946 to 1964), the generation before the Generation X. Generation Y is also considered a potentially large labor force and is capable of forming a pattern of socio-economic development among various generations of a pluralistic society. They live in a world of technology and internet world, they always want something challenging, the same daily routine boring them to their favorite social activity and most of them live in a world where they can connect and interact.
with a global borderless (Malaysian Insider, 2013). Currently, Gen Y dominated more than 50 percent of the workforce as about 21 percent of Malaysia's 29 million populations (Statistics Department of Malaysia, 2015). With the increasing of this number.

2.2 Financial literacy

According to research by William Andrews Tipper (2014) in the article *Future Savings Challenge*, there is a strong savings culture among Generation Y, persistent mainly on cash products. Nevertheless, this is together with incredulity about financial institutions and abhorrence to investing, related with risk. The savings industry will need to find ways to address these views if Generation Y’s cash saving habit is to cultivate into an acknowledgement of investing. Study by Chen and Volpe (1998) tested the level of financial literacy among college students and the level of knowledge. The results showed that majority business students are more knowledgeable than non-business major. Subsequently, those with low levels of financial literacy were studying non-business majors. Another study by Volpe, Chen, and Pavlicko (1996) had related interpretations with the further indication that finance business majors outperformed non-finance business majors. The results showed overall mean of financial literacy was about fifty-three percent.

2.3 Parental Socialization

Center for Financial Security (2012) mentioned that parental teachings on money management, mainly focusing on the pocket allowance given, will help increase the financial awareness and the financial literacy of a child. Thus, Vincent-Wayne Mitchell et al (2015) highlighted that parenting encourages verbalization is positively related to Generation Y’s attitudes towards online unethical activities.

2.4 Peer Influences

Referring to Montandon (2014) stressed that Generation Y are frequently labeled to be easily influenced by peers inspiring that they can be easily pretentious by peer pressure when derives to decision-making. Vincent-Wayne Mitchell et al (2015) stressed that young people also learn from direct and indirect interaction with peers; through discussions, rulemaking, reinforcement and modeling but also integrated their social lives with electronic gadgets. Another findings from Montandon (2014) mentioned about social influence with closer peers have significant influence in the risk attitude of Gen Y in terms of physical and social distance.

2.5 Self-Dominance

William Andrews Tipper (2014) in the article *Future Savings Challenge* specifies that Gen Y approaches financial decisions with a high degree of caution with the mind set of strong association between finance and risk. In consequence, Gen Y has a high tendency to search for advice before making major financial decisions. In spite of this, only a small
proportion use financial advisers to guide their choices. Instead, they turn to those they trust for guidance: their parents, friends and partners.

2.6 Money Habits

Brian Honigman in his article *How Millennials are Shopping* (2013) reported that by 2017, Millennials are hyper-social, continuously connected to social media will have more spending power than any other generation. This article also mentioned that 84% Millennials depend on user-generated content has some influenced on what they buy and 51% from the survey showed that Millennials trust to make purchasing decision based on consumer opinions on company’s websites rather than recommendations from family and friends.

3. Research Method

The study is a cross section causal study. Consequently the data would be collected once. Gen Y university students aged between 20 to 24 years old studying in Taylor’s University in Klang Valley. The targeted population in this survey consists of undergraduate students particularly from Accounting and Finance, Finance and Economics, Banking and Finance and Business Administrations. 70 questionnaires were distributed to the samples that were selected randomly. Since the study investigated Gen Y’s commitment, the unit of analysis was an individual Gen Y.
This theoretical framework is developed to determine and describe the relationship of the dependent variables (saving habits) and independent variables (financial literacy, parental socialization, peer influence and self-dominance) As a result; the following hypothesis has been designed:

### 3.1 Financial Literacy and Savings Habits

Several researches have determined the impact of financial literacy on individual savings. For instance Mahdzan Shehnaz Nurul and Tabiani Saleh (2013) had identified a positive relationship between financial literacy and savings habits in the context of emerging market in Malaysia. Additional research by Huston (2010) emphasized a significant finding on an individual with financial literacy (knowledge and ability to apply this knowledge) may not show the expected behavior or improve his or her financial well-being due to other influences such as cognitive and behavior that is biased, self-control problems, family, peers, economic and institutional conditions that may affect the financial habits and financial well-being. Therefore, this study proposes a following hypothesis:

**Hypothesis 1 (H1):** There is a positive relationship between financial literacy and savings habits

### 3.2 Parental Socialization and Saving Habits

Research by Sabri, (2011) summarized that the way children handle money, savings in particular, is primarily influenced by their parents. Another research by Amritha (2012) concluded that most Malaysian generation Y prefers to obtain information on saving and investment by word of mouths that is from their parents & sibling which carried 53.32% from 313 respondents. This study supported a case study by Hasni Hashim (2014) at Politeknik Sultan Azlan Shah highlighted parents is the main factor influenced savings behavior among Gen Y. Based on the previous research, the following parental socialization and savings habit hypothesis is proposed in this study:

**Hypothesis 2 (H2):** There is a positive relationship between Peer Influence and Savings Habits

### 3.3 Peer Influence and Savings Habits

Erskine et. al (2005) has mentioned in his research on financial savings behavior of young Canadians (aged 12-24) judged that the behavior of teenage crowds towards savings and spending are highly dependent on the social crowd surrounding them. Additionally, research by Amrita (2012) has determined 52.36% that is 307 respondents Malaysian generation Y prefers to source information from relative and friends. Meanwhile, Montandon (2014) declared that Generation Y are frequently described to be commonly influenced by peers. In other way, he indicates that they can be easily affected by peer pressure when comes to decision-making. Therefore, this study suggests a following hypothesis:
Hypothesis 3 (H3): There is a positive relationship between Peer Influence and Savings Habits

3.4 Self-Dominance and Saving Habits

A study contributed by Lusardi, Mitchell and Curto (2010) stressed that socio-demographic characteristics and status of family finances factors have a strong relationship with financial literacy.

Therefore, the relationship between self-dominance and saving habits is suggested in this study as follows:

Hypothesis 4 (H4): There is a positive relationship between Self-Dominance and Savings Habits

4. Analysis and Results

Data were analyzed using descriptive statistics. A total of 70 questionnaires has been collected that consists 54% (38) females and 46% (32) male’s students between 19 to 24 years old from undergraduates with finance background. There were 42% (31) of Economic and Finance, 26% (18) from Accounting and Finance, 24% (17) from Banking and Finance and 8% (4) from Business Administration program. Out of 70 students, 66% (46) received their pocket money from their parents, 18% (13) from part-time job and another 16% (11) from scholarship. Most of the students staying with their parents are 67% (46), 19% (13) staying alone, 11% (8) staying with their friends and 3% (3) staying with their relatives. Majority of the students staying in surrounding are Subang Jaya, Bandar Sunway and USJ area.

Cronbach’s alpha was used to examine reliability of all scales in the main survey. Overall results indicated satisfied the requirement of reliability which is above 0.7. The summary result of Hypothesis testing in Table 1 shows self-dominance is the main factor influenced savings habits among the tested group, followed by parental socialization, peer influence and financial literacy. The result showed regression estimator of relationship between Self-dominance (SD) and savings habits is 1.108 and supported the H4 hypothesis.
Table 1: Result of Hypothesis Testing

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Path</th>
<th>Results</th>
<th>Conclusion</th>
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<tbody>
<tr>
<td></td>
<td>Coefficient</td>
<td>Se</td>
<td>c.r</td>
</tr>
<tr>
<td>H4</td>
<td>SD SH</td>
<td>1.108</td>
<td>0.213</td>
</tr>
<tr>
<td>H2</td>
<td>PS SH</td>
<td>0.526</td>
<td>0.788</td>
</tr>
<tr>
<td>H3</td>
<td>PI SH</td>
<td>0.432</td>
<td>0.641</td>
</tr>
<tr>
<td>H1</td>
<td>FL SH</td>
<td>0.136</td>
<td>0.842</td>
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Pearson correlation test was performed to identify the relationship between the independent variable (self-dominance) with the dependent variable (savings habits).

Table 2: Pearson correlation test results between self-dominance and savings habits

<table>
<thead>
<tr>
<th>SH</th>
<th>Self-dominance</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Pearson Correlation</td>
<td>1</td>
<td>.104**</td>
<td>70</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>70</td>
<td></td>
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<tr>
<td></td>
<td>N</td>
<td>70</td>
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The result in Table 2 shows there is a significant level between self-dominance and savings habits with the significant level of p = 0.000. According to Cramer’s V correlation, the coefficient r obtained is 0.104, which is at the 99% confidence level indicating that there is a positive and weak association between the level of self-dominance and savings habits.

5. Discussion

This study presented changes in major factor influence savings habits among university students which are self-dominance, particularly in urban area. In contrast, the previous case study by Hasni Hashim (2014) among polytechnic students (engineering background)
indicates that parent socialization is the major factor influence savings habits and self-control is the weakest factor. The major changes factor is reflected demographics and living environment of selected group. Moreover, the study demonstrates vital findings classification of Gen Y (undergraduates from finance background) based on their level of financial literacy, level of confidence on financial planning, and self-dominance towards their savings habits. It can be categorized Gen Y with higher financial literacy own high level confidence that can determined and self-dominance in their financial planning. Additionally, this study corresponding with research by Remund (2010) stated that financial literacy evaluates an individual’s level of understanding of the basic concepts of finance, individual’s capability and confidence level to manage his or her personal finances. Hence, resulting financial level will be used to build short-term decisions and fitting long-term financial planning, securing into account life measures and the ever-changing economic conditions. In consequence, this study has matched Huston (2010) on the impact of financial knowledge on the financial behavior of Gen Y. Huston stated that nonexistence of financial knowledge can have a very risky effect on financial behaviors which later would affect their financial well-being. Moreover, this study also supported another recent research by R. Mohd et al (2015) who claimed that financial intelligence level did reflect their education and income level. In addition, R. Mohd et al (2015) stated the level of trust depended on their financial knowledge.

6. Implication and Recommendation

The study provides useful findings as indicators to education institutions in the areas of teaching and learning methodology as well as curriculum development particularly financial literacy. Major findings indicates the background of education has significant with level of financial literacy, self-dominance as the most influential factor towards financial planning and decision making of Gen Y. Therefore, it is very crucial for education institutions to enforce financial literacy particularly at school level. Although parents is the main sources of income, majority of Gen Y are self-dominance in decision making towards their financial planning, investment and savings habits. Further studies can be done to correlate level of financial literacy with self –dominance factor towards spending and savings habits among Gen Y within the same background. On top of that, this study also has limitations in terms of preference group. The level of students is based from second year students finance program only. In addition, the studies also can be conducted at different level year of studies.

7. Conclusion

In conclusion, the study has identified the changes in major factor affecting the saving habits among millennials focusing on university students in urban area. The study also discovered the significance of financial literacy on demographic background (study
preference) among millennials will contribute different impact in terms of level of confidence and self-dominance towards their financial planning and savings habits.

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