UNIVERSITI TEKNIKAL MALAYSIA MELAKA

FACTORS INFLUENCING FINANCIAL LITERACY OF BUY NOW PAY LATER (BNPL) CONSUMPTION IN MALAYSIA

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SUPERVISOR'S APPROVAL

I/We, hereby declared that i/We had read through this thesis and in my/our opinion that this thesis is adequate in terms of scope and quality which fulfil the requirements for the award of Bachelor of Technology Management with Honours.

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DECLARATION

I hereby declare that the work of this thesis entitled "FACTORS INFLUENCING FINANCIAL LITERACY OF BUY NOW PAY LATER (BNPL) CONSUMPTION IN MALAYSIA" is original been done myself and no portion of the work in this research project proposal has been submitted in support of any application for any other degree or qualification of this or any other university or institute of learning.

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DATE   : 13 January 2023

DEDICATION

I would like to appreciate the dedication of my beloved parents who have raised me, my siblings, and my companion in love who always give encouragement and guidance through my journey to complete study. I also want to express a deep sense of gratitude to my lecturer who is also my supervisor for my final year project, Assoc. Prof. Dr. Mohammed Hariri bin Bakri and my fellow friend. They have provided me with fully support and advice throughout this research. Without their blessing and encouragement, this research is impossible to complete within a period of time.

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ABSTRACT

The problem of dept traps has been around for a long time since personal loans and the use of credit cards. However, it happens consciously while the debt trap due to Buy Now Pay Later happens unconsciously due to the low level of consumer financial literacy. Therefore, this study aims to identify the level of financial literacy of Buy Now Pay Later users, to investigate the factors that affect consumer financial literacy among Buy Now Pay Later users and analyze whether the identified factors have a positive relationship with financial literacy . The methodology used in this study is through a questionnaire that has been distributed to 384 people who will be involved in this session. The results of this study will show that Buy Now Pay Later users have a high level of financial literacy. All hypotheses were tested, and it was found that all variables from H1 to H5 were accepted. This means that Financial Knowledge, Financial Behavior, Financial Attitude, Family Influence, and Peer Pressure have a positive relationship with BNPL's level of financial literacy. Financial attitudes have a high impact on financial literacy. Based on the results of this study, it was found that various parties need to play an important role in increasing the level of financial literacy among BNPL users to avoid more users falling into this department.
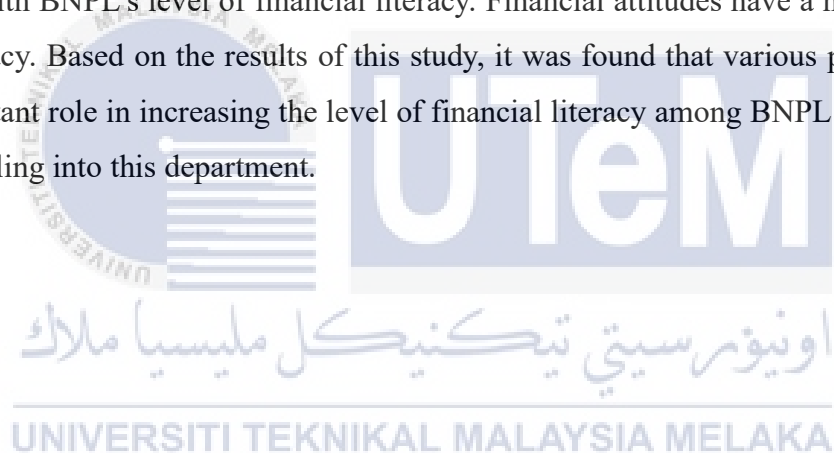
Keywords: Buy Now Pay Later, Financial Literacy, Debt, Debt Trap, Consumer

ABSTRAK

Masalah perangkap dept sudah lama wujud sejak pinjaman peribadi dan penggunaan kad kredit. Namun, ia berlaku secara sedar manakala perangkap hutang akibat Beli Sekarang Bayar Kemudian berlaku secara tidak sedar kerana tahap celik kewangan pengguna yang rendah. Oleh itu, kajian ini bertujuan untuk mengenal pasti tahap celik kewangan pengguna Beli Sekarang Bayar Kemudian, untuk menyiasat faktor yang mempengaruhi celik kewangan pengguna dalam kalangan pengguna Beli Sekarang Bayar Kemudian dan menganalisis sama ada faktor yang dikenal pasti mempunyai hubungan positif dengan celik kewangan. Metodologi yang digunakan dalam kajian ini adalah melalui soal selidik yang telah diedarkan kepada 384 orang yang akan terlibat dalam sesi ini. Hasil kajian ini akan menunjukkan bahawa pengguna Beli Sekarang Bayar Kemudian mempunyai tahap celik kewangan yang tinggi. Semua hipotesis telah diuji, dan didapati semua pembolehubah dari H1 hingga H5 diterima. Ini bermakna Pengetahuan Kewangan, Tingkah Laku Kewangan, Sikap Kewangan, Pengaruh Keluarga dan Tekanan Rakan Sebaya mempunyai hubungan yang positif dengan tahap celik kewangan BNPL. Sikap kewangan mempunyai kesan yang tinggi terhadap celik kewangan. Berdasarkan hasil kajian ini, didapati pelbagai pihak perlu memainkan peranan penting dalam meningkatkan tahap celik kewangan dalam kalangan pengguna BNPL bagi mengelak lebih ramai pengguna terjerumus ke jabatan ini.

Kata Kunci: Beli Sekarang Bayar Kemudian, Celik Kewangan, Hutang, Perangkap Hutang, Pengguna.

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ABBREVIATIONS	MEANING
BNPL	Buy Now Pay Later
OECD	Organization for Economic Co-operation and Development
FL	Financial Literacy
FK	Financial Knowledge
FB	Financial Behavior
FA	Financial Attitude
FI	Family Influence
PGP	Peer-Group Pressure
VIF	Variance Inflation Factor

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CHAPTER 1

1.1 Introduction

This chapter has discussed the background of the study, problem statement, research questions, research objectives, scope, the and importance of the study.

1.2 Background

Debt traps have become a contentious topic, especially since the country announced plans to enter an endemic phase when the Covid-19 outbreak struck about two years ago. Traps have the literal meaning of catching instruments, but they also have the figurative meaning of deception to deceive others. Deception and trapping are also symbolic terms for caught. Debt, on the other hand, refers to money borrowed from others and not paid back, as well as any type of delayed payment. The terms debtor and creditor are frequently used while discussing debt. A debtor is someone who owes money to another person, whereas a creditor is someone who lends money or gives credit to another person. These debtors and creditors must be present in every loan agreement. In the granting of credit between the two parties and the settlement of related liabilities, the relationship between the two entities is crucial.

The debt trap, on the other hand, refers to an institution or individual who owes multiple organizations or people significant or small sums of money and believes that the obligation owing will never be paid off. In other terms, a debt trap occurs when a debtor is unable to repay the debt he or she has accumulated. Higher interest rates or changes in the terms and conditions of the debt incurred might lead to debt trap scenarios. A debt trap usually leads to a payment default or bankruptcy. No one wants to be in that scenario, but the debt trap can now sneak up on anyone without them even recognizing it, especially as the country prepares to enter this endemic phase.

Also, there are a variety of reasons why people enjoy going into debt, even for minor purchases. One of the most prominent causes is the personality of someone who enjoys debt. It appears to have been a habit that has become acclimated, which could be attributed to environmental factors such as debt-prone parents, siblings, and relatives. They treat debt

as a way of life and a drive to keep up with their peers. Next, promotion is one of the main reasons why people enjoy going into debt. Some organisations or businesses will run large-scale promotions in order to entice the working class to become their primary clients. Because some of them cannot afford to spend, this group is easily persuaded. This group may assess if they have enough savings to purchase the products when the goods are at their original price, but after the promotion is made. Praise and feelings are another definite cause of debt traps. Everyone enjoys receiving praises, especially when they are for being attractive, stylish for his or her age, and having a successful career. As a result, they opt to be in debt for the sake of accolades and personal enjoyment. Those who have had a decent career will be racing to buy expensive automobiles, fancy clothes, and anything else they can to appear as successful. Those with mediocre careers, on the other hand, will have the same mindset and rush to show the public that they too, can be stylish despite their mediocre careers. The second reason is that they are out of cash. When a person's wage does not match their lifestyle, they frequently borrow money from others to pay off their other debts. It's similar to the parable of "dig a hole, shut a hole," which refers to taking on new debt to pay off old debts.

Next, financial literacy is a key indication that determines whether a person is aware about debt trap. Literacy has connotations that include being aware, having eyes open, and being cognizant. Literacy also entails knowing the truth, as well as the ability to comprehend and value something. Money is an object or good that is widely accepted and legally recognised as a means of exchange in sales and other transactions. Money is also a store of value, a unit of account, and a debt settlement standard. Currency or banknotes and coins in circulation in a country with a valid tender status, such as ringgit and dollar, are referred to as money in everyday use. It can also be in the form of savings accounts, current accounts, and certificates of deposit. To obtain the products, one might just pay the seller with money. Money fosters trade, which improves the division of labour, resulting in increased productivity and wealth. Financial literacy refers to the ability to use and manage money wisely. Financial literacy is associated with being a wise and responsible consumer. Lack of financial literacy causes this debt trap. Since most clients have a low level of financial

literacy, they will do anything financially in the heat of the moment without doing any surveys first. Financial literacy is important because it influences how people make financial decisions. For day-to-day management, people of all ages require sensible financial planning. Single people must budget for weddings, vehicles, and dream homes, whereas married people must budget for family survival, children's education, and unexpected emergencies. Graduates must pay education debts, interim sustenance money while looking for work, and housing expenses if they have relocated to find a better career.

Apart from that, due to Malaysia's bilateral trade with both Russia and Ukraine, the war between the two nations had an impact on the Malaysian economy. Economic and geopolitical uncertainties are exacerbated by the prospect of a shaky global supply chain. This has caused global oil and natural gas prices to rise, affecting corporations in a variety of industries, particularly those that rely heavily on oil energy supplies. This condition is also a big contributor to the country's inflation. The Department of Statistics reported in April 2022 that the country's Consumer Price Index (INP) in March 2022 climbed by 2.2 percent to 125.6 from 122.9 in March 2021, which is higher than the average inflation rate of 1.9 percent from January 2011 to March 2020. Inflation continued to rise by 2% year over year in the same month. Food inflation is a key source of concern, since it has been the greatest component of the overall weighted CPI, which is a major contributor to inflation. Indirectly, rising commodity prices, primarily due to food inflation, have influenced inflationary pressures. Following the rise in the global food CPI amid high commodity costs and supply chain disruptions in Europe, Malaysia's domestic food inflation is projected to continue to rise. When inflation happens, more people will choose to go into debt in order to stay afloat. Indirectly, this will boost the number of people who will utilise the Buy Now Pay Later service in the future.

The Buy Now Pay Later service is a new service that is supposed to be similar to a personal loan or credit card in that payments will be paid in stages or in instalments over a set period of time. Depending on the criteria provided by the provider, this platform will usually divide the payment into three or six months. If the first payment is made on February 1, the second payment will be made on March 1, and so on until the entire payment is made. Consumers may usually get interest-free financing through most Buy Now Pay Later platforms. Customers utilise Buy Now Pay Later to acquire things by inputting personal information such as their name, ID card number, bank account information, and so on. If the application is approved, the chosen Buy Now Pay Later platform will pay the seller in

full, leaving the buyer with only the instalment payment to make to the Buy Now Pay Later platform by debit card, bank account, or credit card deduction until all payments are made. The usage of these services should be solely based on a person's need or ability to repay a debt. It is critical for new users to familiarise themselves with the platform's terms and conditions in order to avoid future misunderstandings or complaints. They are advised to spend only what they can afford in order to examine the financial implications. Always keep track of the rate of late payment penalties and make timely payments.

1.3 Problem Statement

In this section, the researcher has elaborate on the problem statement found in this study. The main issue in this study is the debt trap from the use of the Buy Now Pay Later platform. Suraya Zainudin, a financial activist and the founder of RinggitOhRinggit.com, a famous Malaysian personal finance blogger, is sure that BNPL agreements harm consumers more than anything else. She accused BNPL providers of trapping people who overextend themselves without fully understanding the implications of these products on their future financial health and credit standing. Suraya further stated that the statistics demonstrate that Malaysians' financial literacy remains low, that household debt remains high, and that Malaysians' earnings have remained the same. As a result, she is concerned that as the use of Buy Now Pay Later develops in Malaysia, it will not be a long-term sustainable practice.

According to the 2021 Ringgit Plus Financial Literacy Survey, Malaysians' financial patterns are still concerning compared to last year (2020). Many Malaysians are still vulnerable to financial shocks, and a significant portion of the population continues to spend more than they earn. Apart from contributing to people's financial well-being, Finance Minister Tengku Datuk Seri Zafrul Tengku Abdul Azizi has stated that the rapid development of financial technology can represent a hazard to them. Financial technology such as buy now, pay later alternatives, which are appealing to young people, can hurt their financial well-being. As a result, possessing financial literacy has assist them in making the best decisions for their financial well-being. He went on to say that financial literacy is a concept that should be imparted to children from an early age.

In Malaysia, there is still no actual data on Malaysians who have had financial troubles as a result of utilizing Buy Now Pay Later; instead, the finance minister and finance experts have issued a few warnings. However, according to data from Finder, 27 percent of Singaporeans have financial troubles when using the Buy Now Pay Later service. Nearly

11% claimed they had spent more than their budget and were having difficulty paying for other bills. Furthermore, according to the Australian Financial Counsellors, the number of consumers with Buy Now Pay Later debt has increased dramatically in the last year. About half, most, or all of the clients, according to 84 percent of counsellors, have some type of Buy Now Pay Later debt. Youth are more likely to get themselves into unanticipated debt traps, which is exacerbated by their lack of financial awareness.

According to the Malaysian Insolvency Department (MdI), a total of 10, 317 people were declared bankrupt because to the Covid-19 epidemic during the Movement Control Order (PKP) from March 2020 to July 2021. Selangor had the highest number of people declared bankrupt, with 2,555 people, according to Prime Minister Datuk Seri Ismail Sabri Yaakob. According to economist Associate Prof Ahmed Razman Abdu Latiff, the Act might be greater than the minimum debt value loan permitted by the government, which increased the value of bankruptcy from RM 50,000 to RM 100,000 under Section 5 of the Insolvency 1967. As a result, the number of bankruptcies documented only includes those with debts over RM 100,000 after the amendment took effect, while those who went bankrupt owing to inability to pay bills or debts smaller than this new value are not included.

Anyone can utilise the Buy Now Pay Later system, which is still relatively new and does not require an excellent credit score. As a result, even if their credit score is below average, individuals can qualify for the BNPL scheme. Those who have reached the age of 18 can use this service directly without first reading the terms and conditions. Users are more likely to use it again in the future because it is so simple to use. Furthermore, because substantial payments can be made on a regular basis, consumers' monthly budgets would not be harmed. This offers them room to breathe and allows them to use their emergency funds instead of making other purchases if they have an emergency within the month. The Buy Now Pay Later platform, on the other hand, will levy a significant late payment cost if users fail to make payments. When this happens and the user cannot afford to pay for it, the user has unknowingly fallen into the Buy Now Pay Later debt trap.

The government has began planning to enact the Consumer Act in 2022, with the goal of tightening regulatory arrangements for all consumer credit activities, including suppliers of "Buy Now Pay Later" schemes. The Securities Commission and Bank Negara Malaysia are leading a collaborative initiative with key ministries and agencies to develop a complete legal framework. All creditors, including Buy Now Pay Later companies, will be subject to the applicable requirements under this act. As a result, consumers will begin to see the

importance of properly using the Buy Now Pay Later service in order to avoid being in debt.

1.4 Research Questions

The researcher determined three research questions in this study:

1. What is the level of Buy Now Pay Later consumers in financial literacy?
2. What are the factors that influence Buy Now Pay Later consumers' financial literacy?
3. Do these identified factors have a positive relationship with financial literacy?

1.5 Research Objectives

In this research, there are three research objectives to be figured out:

1. To identify the level of Buy Now Pay Later consumers in financial literacy
2. To investigate the factors that influence consumer financial literacy among Buy Now Pay Later consumers
3. To analyze whether the identified factors have a positive relationship with financial literacy.

1.6 Scope of The Research

This study was conducted to know the level of buy now of Pay Later consumers in financial literacy, to investigate the factors influencing consumer financial literacy among Buy Now Pay Later consumers, and to analyse whether the identified factors have a positive relationship with Buy Now Pay Later consumption. This research has looked at all areas in Malaysia. However, because it is difficult for researchers to discover real Buy Now Pay Later users in all Malaysian states because the researcher has limited contact in certain states, the researcher has attempted to recruit at least one respondent from each state to represent the state. Only 384 people has be contacted for this study, according to the researcher.

For the first and second objectives, the approach that has been employed in this study is data collecting via a questionnaire that has been distributed online via Google Forms. The researcher has used the findings from objectives one and two to investigate the relationship between the two objectives in the third objective. Previous research in Malaysia by Hazlaili Binti Hashim, Andy Lim Yee Chee, Yeo Sook Fern, Anushia Chelvarayan, and Khairol

Nizat bin Lajis (2021) entitled Financial Literacy: The Influencing Factor Among Youth were cited as references in this study.

1.7 Research Significance

The results of the study have increased consumer awareness of the risks of using BNPL as a new Fintech without sufficient understanding of financial literacy, preventing consumers from accidentally getting stuck in debt. Through this study, users have been more careful in using this service and always think about whether they can afford to pay for it every month or not. Furthermore, this data can show governments and the corporate sector, in particular, that Buy Now Pay Later platforms need urgent regulation so that many users do not get stuck in debt. If regulations have been made but the number of users involved in trap dept still remains or increases, the government in particular needs to conduct an aggressive awareness campaign to help the survival of the people in particular.

1.8 Summary

In conclusion, this chapter has discussed the overview of the study. It has discussed the background of the study, problem statement, research questions, research objectives, scope, and the importance of the study. In the next chapter, the researcher conducted a literature review. Information will be broader and easier to understand.
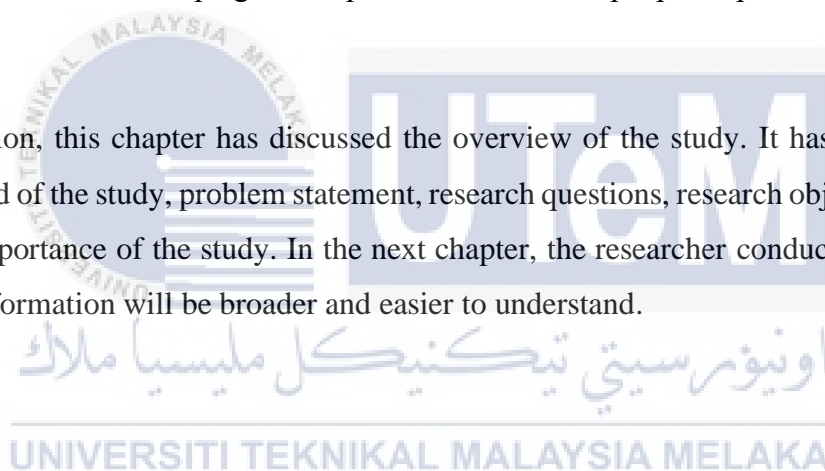
CHAPTER 2

2.1 Introduction

This chapter has presented a review of previous literature that is considered relevant to the topic of this research in meeting the goals and objectives of the study, as stated in Chapter 1. A discussion of the selected theory used in this research, as well as independent and dependent variables, is also included. The final part of the chapter discussed the research framework and hypotheses.

2.2 Financial Literacy

Boukie Compen, Kristof De Witte, and Wouter Schelfhount (2019) defines financial literacy as a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial well-being. They then stated that poor performance in financial literacy is a problem because financial literacy enhances desired financial behaviour in the short and long term. They believe that financial literacy involves in-depth learning, meaning making and critical thinking and an inadequate understanding of content objectives. Kou et al described that financial literacy being treated as one of the influential financial inclusion components by different national and international organizations. People with a higher level of financial literacy are more likely to participate in positive saving habits and are less likely to borrow from various informal sources. He also believes that financial literacy can help educate and empower the public to evaluate various financial products and services.

2.3 Financial Knowledge

Budiandriani, Khairina Rosyadah (2020) defined financial knowledge as everything about finance that is experienced or what happens in everyday life. They also described financial knowledge as a person's mastery of various things about the world of finance, which consists of financial tools and financial skills. They believe if something lack of financial knowledge in terms of financial skills it is caused by education. Formal education and informal sources can both provide financial knowledge. High school programmes, lectures, seminars, and out-of-school training classes are examples of formal education. Meanwhile, informal sources can be gathered from one's immediate surroundings, such as parents,