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The Impact of Religiosity on Financial Debt and Debt Stress

Sapora Sipon [a] *, Khatijah Othman [b], Zulkifli Abd Ghani [c] , Husni Mohd radzi [d]

[a,b,c,d] *Faculty of Leadership and Management, Universiti Sains Islam Malaysia, Bandar Baru Nilai, 71700, Negeri Sembilan, Malaysia*

Abstract

This study examines the impact of religiosity on financial debt. It also explores the impact of religiosity on debt stress. The study hypothesizes that people with higher religious social norms are likely to have lower financial debt and people with lower financial debts experience lower debt stress. The study used quantitative data using Muslim Religiosity Personality Inventory (MRPI), Financial Impact Scale (FIS) and the Family Economic Stress Scale (FESS). The questionnaires were taken from a sample of 180 participants, which stands from government employees. The study found a significant relationship between financial debts with the level of religiosity of the subjects. The study also found positive association between financial debts with debt stress suggesting that individuals with high financial debts experiences high level of debt stress.

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Keywords: religiosity, financial debt, debt stress, Family economic stress scale and Financial Impact Scale

1. Introduction

The purpose of this study is to explore whether religiosity is a factor associated with financial debt. The study also explores the impact of financial debt on debt stress. Prior research has vastly examined the impact of religiosity on personal behaviour (E.L Lehrer, 2004) (L. Iannaccone, 1998), personal financial decisions (D.W.Hess, 1998), firm behaviour (Mufaddal Baxamusa & Abu Jalal, 2010) and financial reporting irregularities (SD Dyreng, William J.M & Chris D.W, 2010).

Cobb (1976) stated that heavy life style activities that lead to consumer credit tends to contribute to high amount of stress. Cohen & Janicki (S. Cohen & D. Janicki-Deverts, 2012) are in agreement with Cobb, indicating that anxiety over money can negatively affect health in several ways, which requires good coping skills and financial management. A study conducted by Fiske (2003) showed that perceived health and financial stresses play

*Corresponding Author: Sapora Sipon Tel.: +0-606-798-8000
E-mail address: sapora@usim.edu.my

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vital roles in developing late-life depression among Taiwanese elderly persons. Their study indicated that deterioration of financial status is among the psychosocial factors that have been shown to be associated with stress and depression.

The extend of study to investigate the impact of religiosity on financial debt and the effects of financial debt on debt stress is pertinent since inappropriate and excessive amount of debt seems endemic to the Malaysian society as evidenced by poor rating credit scores and higher bankruptcy rate. According to the *Bank Negara's Annual Report 2010*, Malaysia's household debt by the end of 2010 was RM 581 billion or 76% of GDP (Gross Domestic Product). This appears as a worrisome state because it reveals that households are spending about half of their income to pay off their debts on monthly basis. The Malaysian household debt service ratio was 9.1% in 2006, rose to 49.0% in 2009 and dropped slightly to 47.8% in 2010. Hence, this clearly means that on average almost half of a household's income goes to repaying debts. Looking at the problem from the ratio of household debt to disposable income, this ratio is 140.4 % for Malaysia, one of the highest in the world; Singapore at 105.3 %, USA at 123.3 % and Thailand at 52.7% in 2009 (Bankd Negara's Annual Report, 2010).

Thus, these statistical data stands as evidences that the loans taken by each household in Malaysia is on average 1.4 times more than its household income. This points out the urgency to educate people the importance in having better financial planning in daily life.

2. Literature Review

In relating to this issue, Kamil (2007) claimed that debt has many negative implications on society and nation and therefore should not be encouraged. Debt is in one of the principal causes of poverty; it has hampered the economic development of indebted countries and has prevented them from investing in essential services such as healthcare and education. For example, Ecuador spends 47% of its government income on servicing debt and only 12% on education and just 7% on healthcare. The reality is many poor countries are spending more on debt repayments than on providing the most basic needs for their own people (J. Glennie, 2007).

According to a recent survey conducted by the National Association for Business Economics (www.nabe.com) the combined threat of subprime loan defaults and excessive indebtedness has overtaken terrorism and the Middle East as the biggest short-term threat to the U.S. economy. 32% of the survey participants cited loan defaults and excessive debt as the biggest threat, compared to only 20% citing terrorism as the biggest threat 64% of the people polled who carry debt admitted that debt is a cause of worry for them (www.bankrate.com).

Stress caused by factors such as finances has been shown to negatively impact psychological well being. Low levels of financial stress are associated with greater level of well being and lower level of stress. Bergemean & Wallace (1999) conducted a study based on two separate telephone surveys involving a total of 1,036 Ohioans found that people who reported higher levels of stress about their debt showed higher levels of physical impairment and also reported worse health than those with lower levels of debt. In addition, people with a higher proportion of their income tied up in credit card debt also showed higher levels of physical impairment (www.sciencedaily.com)

Financial debt also created marital problems to couples, as it was associated to increased levels of conflicts, stress, and marital pressure, which reduce the level of marital satisfaction or fulfilment. Such financial complexities are frequently noted as one of the major reason for couples engaging in divorce (http://ivythesis.typead.com).

On the other hand, Islamic teaching discourages the excessive consumption of the debt though the real need for taking debt is allowed. There are ample evidences in the Quran suggesting that accruing debt is a serious matter and should not be undertaken except in cases of real necessity. The Qur'an has very strong words condemning and prohibiting extravagance and prodigality: *"Eat and drink, but waste not by excess, for God love not the prodigals".* (7:31) and *"Squander not wastefully, surely the squanderers are the devil's brethren."* (17:26-27) (Al-Quran).

Islam discourages heavy debt as much as possible. It is considered to have a serious and direct effect on a Muslim's belief or conviction for it can lead to harmful consequences. The Prophet Muhammad (peace be upon him) used to regularly supplicate "*Allah, I seek refuge with you from sin and heavy debts*". (reported by Bukhari and Muslim). The Prophet Muhammad (peace be upon him) further stated that "*whoever dies from free from three things; arrogance, cheating and debt will enter paradise and the soul of a believer is held hostage by his debt in his grave until it is paid off*" (reported by Tirmidhi).

Khan & Mould (2008) said Islam discourages heavy debt as much as possible as it is considered to have a serious and direct effect on Muslim's belief or conviction because it can lead to harmful consequences. Incurring debt to fund luxury and extravagance is contrary to the core Islamic values that condemn excess and wastage.

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