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FINANCIAL INDEBTEDNESS AMONG MUSLIM MEDICAL DOCTORS IN MALAYSIA: AN ANALYSIS OF PERSONAL FINANCIAL RATIOS

By

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ABSTRACT



- This study aims to analyze the performance of financial management among Muslim medical doctor in public hospitals Malaysia.
- Personal financial ratios such as the liquidity ratio, the liquid assets to net worth ratio, the debt to asset ratio and the solvency ratio were used to analyze the cash flow statement and net worth statement.
- Database obtained from previous cross sectional study via questionnaire survey of 189 respondents; and IBM SPSS version 20 software used to generate descriptive statistics reports.
- The results showed that personal finance ratios help to measure the financial performance of the individual. Employers are encouraged to provide workplace financial education (WFE) using Islamic financial planning modules to improve knowledge and skills in financial management for their employees. WFE not only solve personal financial management, but also can improve the productivity and profitability of the organization.
- Keywords: Civil Servants, Islamic Financial Planning, Personal Financial Ratios, Financial Indebtedness, Workplace Financial Education.



INTRODUCTION

- Weak financial management can affect performance at work.
- If no appropriate control and observation on financial indebtedness, serious problems will arise.
- Factors that contribute to insolvency and the implications for the household vary significantly, consumers are taking on more debt and more consumers can be characterised as insolvent (S. A. DeVaney & Lytton, 1995).
- Among the problems identified in the discipline of public services is a serious financial indebtedness. Financial indebtedness is part of the agenda of the government in dealing with the bankrupt civil servants.



INTRODUCTION

- Civil servants who were declared bankrupts increased by more than 100 percent as 3,000 civil servants were declared bankrupt in 2010 compared with 1,086 in 2009 (Darshini, 2011).
- Malaysian Department of Insolvency (Mdi) recorded an average of 44 people go bankrupt daily in Malaysia and 2,120 civil servants detected bankrupt from 2005 till 2012.
- 41.57% of the bankrupt civil servants said that they do not pay the debt because they could not affordable to pay.
- According to Mdi in June 2013, 84.62% (1,794 people) bankruptcy among civil servants consists of Muslims (NurLailey, 2013).



LITERATURE REVIEW

Serious Financial Indebtedness

- A public officer is in serious financial indebtedness when the amount of unsecured debt is more than 10 times his monthly emoluments (SPA, 2013).
- Civil servant only allowed to borrow to the limit of 60% of the remaining salary.
- Head of Department must monitor continuously so as the employees' financial situation not to affect work performance and the abuse of power.



LITERATURE REVIEW

Financial Indebtedness in Ministry Of Health (MOH)

- The study found that as many as 547 people or 3.8% of the 14,494 members of the MOH in the Klang Valley with monthly emolument cuts exceeding 60%. While a total of 5,418 people or 4.8% of the 114,024 members of the State Health Department was located in the same state of indebtedness. (INTAN,2007)
- MOH has directed all head of department to monitor every six months by reporting net income of officer positions which has less than 40% of monthly emoluments.
- While the Department of Health, Kuala Lumpur, has taken the initiative to provide guidelines on personal loan application.
- But there is no initiative to organize personal financial management course.



LITERATURE REVIEW

- In Malaysia, it is common to find young Government Medical Officers and perhaps specialists, work as locums in many private clinics and hospitals throughout the country. The reasons are usually monetary in nature –unable to meet financial demands especially in the urban areas like Klang Valley and Johore Bahru where living expenses are raising exponentially; these medical professionals are forced to work hard as locums when desperation of trying to make ends meet becomes overwhelming. Some do locum almost daily or at every opportunity. They would prefer otherwise. With bills to pay, a family to upkeep and ever increasing post-graduate examination fees, current salary schemes are doing great injustices to a profession requiring so many years of sacrifice. Spiraling living standards do not help either (Dr. T.E. Cheah, 2005).
- Doctors are feeling the pinch of high cost of living and stagnancy of income growth (Christina Chin, 2013).



LITERATURE REVIEW

Personal Financial Ratios

- The use of financial ratios to analyse the financial performance of the company has long been known.
- While personal financial planning using financial ratios to measure the performance of individual financial management objectively (Prather, 1990).
- Research on personal financial ratios is still in its infancy, despite its development in the last 20 years.
- Financial planning researchers in US, have begun the process of standardising these ratios with certain guidelines (Harness & Finke, 2008; Institute of Advanced Financial Education, 2012; Lytton, Garman, & Porter, 1991).
- No studies on personal financial management using financial ratio analysis detected in Malaysia.



LITERATURE REVIEW

Liquidity Ratio: Liquid Assets/Disposable Income

- The Liquidity Ratio compares liquid assets to monthly expenses. In the case of monthly expenditure data is not available, the disposable income is to be used as a proxy for monthly expenditures.
- Mason and Griffith (1988) and Winger and Frasca (1993) suggest that a reasonable value for this ratio would be 3 to 4, i.e., liquid assets should be equal to 3 to 4 months of disposable income.



LITERATURE REVIEW

Solvency Ratio: Total Assets/Total Liabilities

- The Solvency Ratio compares total assets with total liabilities, and is a broad measure of a household's overall financial position.
- Households are "technically insolvent" when the solvency ratio, (Total Assets/Total Liabilities), is less than one.
- The time necessary to liquidate assets is generally ignored, as is the reduction in value which may occur if assets are liquidated at an inopportune time, such as with the sale of a home. Personal property for which there is no market value should not be included in the assets. (S. DeVaney, 1993).



LITERATURE REVIEW

Liquidity, Asset/Liability, and Gross Annual Debt

- Payments/Disposable Income appears to be the most useful predictors of insolvency (S. A. DeVaney, 1994).
- Previous empirical analyses of emergency fund levels of households have made implicit or explicit assumptions that typical prescription of having liquid assets equal to three to six months' worth of spending was valid for most households (Chang, Hanna, & Fan, 1997).



DATA AND METHODOLOGY

- data obtained from a previous study via questionnaires of 402 medical doctors in Malaysia; where 189 respondents have been identified as Malay doctors working in public hospitals in Malaysia.
- Rajna et. al (2011) only focus on subjective measures of financial knowledge, financial attitude and financial practice of medical practitioners; while this extensive study focus on objective measure.
- descriptive data analysis was performed using IBM SPSS version 20 software.



FINDINGS AND DISCUSSION

Socio-demographic Profiles of Respondents

Demographic	Characteristics	N	%
gender	Male	55	29.1
	Female	134	70.9
Area	Urban	86	45.5
	Rural	103	54.5
Age	Under 30	81	42.9
	31-40	73	38.6
	41-50	28	14.8
	Above 51	7	3.7
Status	Single	38	20.1
	Married	150	79.4
	Others	1	.5
Child	Nil	47	24.9
	1-3	105	55.6
	>3	37	19.6
Service	1-5	87	46.0
	6-10	36	19.0
	11-15	43	22.8
	>16	23	12.2
Family	Wealthy	11	5.8
	Average	152	80.4
	Poor	26	13.8
Rank	Medical Officer	118	62.4
	Specialist	71	37.6
Muslim	Wrong	131	69.3
	True	47	24.9
	2	11	5.8



Cash Flow & Net Worth Positions of Respondents

Financial Statement	Characteristics	N	%
Cash Flow	Surplus	151	79.9
	Deficit	31	16.4
	N/A	7	3.7
Net Worth	0-250k	15	9.8
	251-500k	91	59.5
	501-750k	27	17.6
	751K-1M	15	9.8
	>1M	5	3.3



Descriptive Analysis of Financial Ratios of Respondents

Financial Ratios	Characteristics	N	%
Liquidity Ratio	<0	31	25.0
	1--2	25	20.2
	3-6	30	24.2
	7-83	38	30.6
Liquidity Assets to Net Worth Ratio	Nil	22	14.7
	1-14	107	71.3
	15-100	17	11.3
	>101	4	2.7
Debt to Asset Ratio	<0	19	13.2
	1-49	62	43.1
	50-100	50	34.7
	>101	13	9.0
Solvency Ratio	<0	13	8.6
	1-49	50	32.9
	50-100	89	58.5



FINDINGS AND DISCUSSION

Summary of Overall Personal Financial Ratio

<i>Financial Ratio Indicator</i>	<i>Benchmark</i>	<i>Findings Below Benchmark</i>
1. <i>Cash flow</i>	<i>Positive</i>	<i>17.03%</i>
2. <i>Net Worth</i>	<i>Positive</i>	<i>0%</i>
3. <i>Liquidity Ratio</i>	<i>3 months and above</i>	<i>45.16%</i>
4. <i>Liquidity Assets to Net Worth</i>	<i>More than 15%</i>	<i>71.33%</i>
5. <i>Debt to Asset Ratio</i>	<i>Less than 50%</i>	<i>43.75%</i>
6. <i>Solvency Ratio</i>	<i>More than 50%</i>	<i>41.45%</i>



CONCLUSION AND RECOMMENDATIONS

- The results show that the cash flow and net worth situation does not reflect the actual financial management among Muslim doctor. It seems that negative cash flow only around 17% and nil net worth deficit results. After four financial ratio analysis is taken into account, the observed %, reflecting poor financial management which do not meet the benchmark set by the financial planner.
- Serious Financial Indebtedness could lead to bankruptcy.
 - Current Guideline : Remaining salary < 40% Of Monthly Emolument and Unsecured Debts > 10 times of Monthly Emoluments
 - Propose Mandatory Financial Health Check-up via WFE
 - Identify Symptoms ..Preventive better than cure
 - 1. Negative Cashflow
 - 2. Deficit Net Worth
 - 3. Liquidity Ratio < 3
 - 4. Lanw < 15%
 - 5. Dta >50%
 - 6. Solvency <50%
- Civil servants must have knowledge in preparing the cash flow statement and net worth statement; also have to understand the result of their personal financial ratio analysis; or consult with Islamic financial planner.



CONCLUSION AND RECOMMENDATIONS

- Alternatively, the employer may provide financial education at work (Kim, Bagwell, & Garman, 1998).
- WFE should be backed by Islamic financial planning methods due to the failure of Muslim 69.3% of respondents answered the question related to the will.
- Islamic financial planning is a comprehensive and holistic approach in managing personal finance; especially Muslims that represent 77% of the total number of civil servants.
- Financial assistants to conduct training is available from the government via 1% from the emoluments allocation and obligations of attending 7 days course for civil servants. The employer may provide WFE in the form of one-day seminar to create awareness, the four-day workshop to develop skills and individual counselling with a financial planner in specific cases.

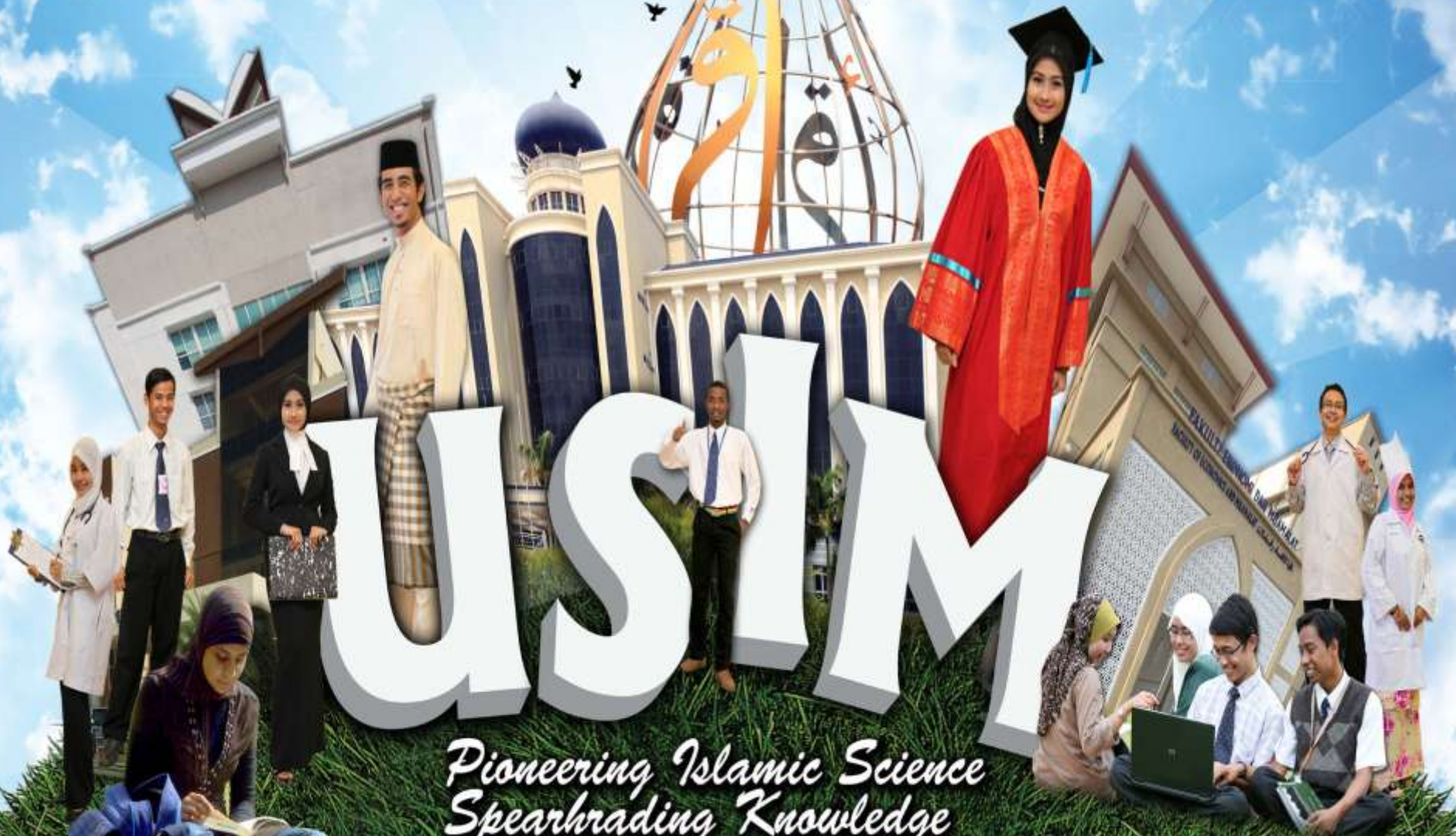


THANK YOU & WASSALAM

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