

The Analysis of Psychological Factors Affecting Savers in Malaysia

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Abstract

Malaysia has managed to sustain a high level of saving rate. However, to combat with the stiffer competition between local and foreign retail banks, the local retail banks are urged to understand the savings behavior of savers in Malaysia better, so that, appropriate marketing strategies can be developed in tapping and penetrating this group of people. Thus, the aim of this paper is to explore the effects of psychological factors, such as, social influence, attitude towards savings, and self-control on savers in Malaysia. Based on the ordinal regression analysis, the findings shown that those who able to exercise self-control and receive parental influence during childhood are tending to save more. However, attitudes towards saving do not have significant impact on the saving patterns of savers. This study will help retail banks to craft out better products and marketing strategies so that they can be more competitive in attracting and retaining customers. Retail banks are to urge to think of scrutinizing the strengths and weaknesses of their financial products so that better financial products can be developed in meeting savers' needs.

Keywords: Savers, saving patterns, social influence, attitude towards saving, and self-control

JEL Classification Codes: E21, D14, D19

1. Introduction

Malaysia has managed to sustain a high level of saving rate. Overall, the country saved an average of 35.3 per cent of gross domestic product (GDP) a year from the past three decades (Tang, 2008). Of these savings, personal savings are already accounted around 20 per cent to the country's savings throughout the years (Tang, 2008). The high personal savings rate in Malaysia is further supported by the latest survey conducted by HSBC Bank (2009). According to the survey, it is revealed that Malaysians, on average, save 25 per cent of their disposable income. Such saving rate is relatively high

as compared to other countries. It has been ranked as the second highest in ASEAN countries and ranked as the seventh highest among the Asian countries (HSBC, 2009).

Retail banks are one of the popular places where people usually save their money in. In 2009, there were a total of 22 retail banks operating in Malaysia in which 15 are conventional retail banks and 7 are Islamic retail banks (Bank Negara, 2009). It is expected that the number of retail banks will increase in the coming years as part of the initiatives of the Financial Sector Master Plan on further liberalizing the country's financial systems. In phase 2 and 3 of the plan, the barriers of entry for foreign competitors will be gradually lowered down. In other words, there will be more banking licenses issued to foreign banks in Malaysia. As such, the competition level between local and foreign retail banks in Malaysia will become stiffer in the coming years. Therefore, to thrive on this challenging time, retail banks are urged to understand the savings behavior of the savers in Malaysia better, so that appropriate marketing strategies can be developed in tapping and penetrating this group of people. By doing this, it is believed that it can further enhance the profitability and competitiveness of the retail banks. Thus, the main objective of this study is to explore the effects of psychological factors, such as, social influence, attitude towards saving, and self-control, on savers in Malaysia.

2. Literature Review

The model which, inspired by the theory of planned behavior initiated by Ajzen (1991) and Warneryd (1999), proposed that saving is a voluntary individual behavior that influenced by few sociological and psychological variables, namely, social influence, attitude towards savings, and self-control.

2.1. Social Influence

Social influence involves the exercise of social power by a person or group to change the attitude or behavior of others in a particular direction (Franzoi, 2006). Lea et.al (1987) asserted that many societies belief saving money as *thrift*, a virtue which is highly valued and is important to the economic growth of a nation. The intrinsic value of saving money was spread through religious teaching, through education of children and various popular attempts to enlighten people about the importance of being frugal (within limits). Jain and Joy (1997) acknowledged that an ethnic cultural root will influence the individuals saving behavior. In their study, 36 Indian families living in Canada had been taken into study and it is found out that their culture has rooted the importance of saving in their mind. This has caused them to take a longer view in planning their financial and thus, their need for saving determines their consumption but not the other way around. Sonuga-Barke and Webley (1993) argued that saving is shaped during childhood through influences of particular individuals, institutional and other social factors and facilities. In their study, they found out that children viewed saving as a legitimate and valuable behavior, not an economic function. In other words, children valued saving because it seemed socially approved and rewarded. Although children appear to understand and challenge these assumptions when they get older, but inevitably they see the practical advantage in saving. Webley and Nyhus (2006), in their study on the effect of parental influence to children's saving, also found out that socialization of the importance of saving during childhood do influence the children economic behavior during adulthood. Duensberry's (1949) study focuses on the effect of social comparison to saving. His argument is that individuals will tend to compare their saving/consumption level with their reference group. An individual will be motivated to save/spend whenever the reference group spends/saves higher than him/her.

2.2. Attitude towards Saving

Attitude is an individual's positive or negative beliefs about performing a specific behavior (Ajzen, 1991). Attitude is formed through: (1) one's beliefs about the consequences of performing the particular behavior, and (2) one's evaluation of those possible consequences. Positive attitude will thus, create the intention to perform an action (Maio and Haddock, 2009). However, attitude is not constant

all the time. Perhaps, influences such as social persuasion (Prislin and Wood, 2005; Webley and Nyhus, 2006; Wood, 2000), perception of self-behavior (Bem, 1972), and the motives/values that an individual holds (Wyer and Albarracin, 2005) will change an individual's attitude from time to time. The assessment of attitude towards saving is not one dimensional. For example, Furnham (1985) assessed the saving attitude among British by measuring their agreeableness on the following items: (i) saving money makes people more independent, (ii) one way to become wealthy is to save, (iii) one must still save even in the time of high inflation, (iv) children should be taught in school the benefit of saving, (v) I often deny myself certain pleasures so that I can save money, and (vi) there would not be so many people on social security if they had been taught to save. The research has found out that those who scored high are more positive toward saving and hence, they save regularly. Gough and Sozou (2005) in the study of the attitude towards retirement saving of Britain by using the statements in their questionnaire such as: Do you normally have savings as opposed to debts? Do you intend to retire early? Do you set aside a certain level of money each month/year for retirement? Do you consider the company pension schemes when changing jobs? This study found out that people who have higher scores tend to have better preparation for their retirement and save more.

2.3. Self-Control

Saving requires one to refrain from spending so that money can be kept aside for future use (Lunt and Livingstone, 1991). However, it is argued that humans are impatient in nature (Carroll, 1997; O'Donoghue and Rabin, 2000). They tend to put a higher value on the gratification derived from immediate consumption rather than delayed consumption. This is because declining health will result less enjoyment from consumption on old age (Trostel and Taylor, 2001). Thus, in order to save money, one must be able to exercise self-control in delaying gratification and resisting the temptation to spend (Thaler, 1994; Rabinovich and Webley, 2007). Earliest studies tend to associate personality to self-control (Nyhus and Webley, 2001). It is assumed that five-factor personality dimensions such as extraversion, conscientiousness, and neuroticism do affect saving. Extraverts are less inclined to save than introverts due to the assumption that extraverts are more likely to meet more people and thus, more frequent interaction with other people causes extra expenditures, which will in turn reduce saving. Conscientiousness people will have better planning on their financial status. They have higher discipline to save and less inclined to borrow. Emotional stability encompasses elements of self-control and planning. Emotionally stable people are therefore more likely to be able to follow their own plans and budgets than the emotionally unstable. However, Warneryd (1999) argued that the explanatory power of personality is limited as the five-factor model of personality is based on descriptive traits that can be seen as residues of past behavior. In fact, he argued that self-control is learned and developed by individuals. Hoch and Loewenstein (1991) modeled self-control for saving as a conflict between the two psychological forces: desire and willpower. This model coincides with Thaler and Shefrin (1981) assertion that there are two conflicting roles (a 'planner' and a 'doer') co-existed within an individual. The 'planner' is assumed to be far-sighted and to strive towards maximization of life-long utility, while the co-existing doer is assumed to be myopic and impulsive, striving towards maximization of immediate pleasure. Thus, the ability to maintain self-control and successfully implement long-run decisions depends on the relative strength of the opposing forces of desire and willpower. Increased desire works in the direction of the immediate outcome while increased willpower works in the direction of long-term outcomes. People tend to use different strategies in controlling themselves to save. Thaler and Shefrin self-control strategies focus on three tactics: persuasion, rules, and constant monitoring. 'Planner' will modify 'doer' preference by kept persuading that saving is good in itself; 'planner' would also impose rules to restrict any spending opportunities; and, 'doer' is being monitored constantly to prevent occurrence of any deviant (impulsive spending) behavior.

Hoch and Loewenstein distinguished two classes of self-control saving strategies: (a) attempts to directly reduce desire, and (b) overcoming desire through a variety of willpower tactics. The strategies that attempt to reduce desire are outlined as follows:

1. Avoidance means avoid going to places which are likely to increase the desire to spend;
2. Distraction includes ways of turning away from a desired object. In other words, it means trying to think of something else when is tempted to spend on something;

On the other hand, people also use variety of willpower tactics to control desire:

3. Precommitment refers to any device through which people impose constraints on future behavior. This can be done by leaving cheque-book and credit cards at home and bring only a small amount of money when going shopping;
4. Economic cost assessment is conscious considerations of economic costs. It includes buying something that are really worth the price and not cheaper somewhere else;
5. Time binding involves thinking of the positive aspects of deferring a purchase; and
6. Budgeting means budget expenses and spending wisely.

Karlsson (2003) argued that these two classes of self-control strategies are not stand alone to each other. In fact, his research on the self-control strategies adopted by people in Sweden found out that these strategies are used interchangeably.

3. Methodology

3.1. Population and Procedure

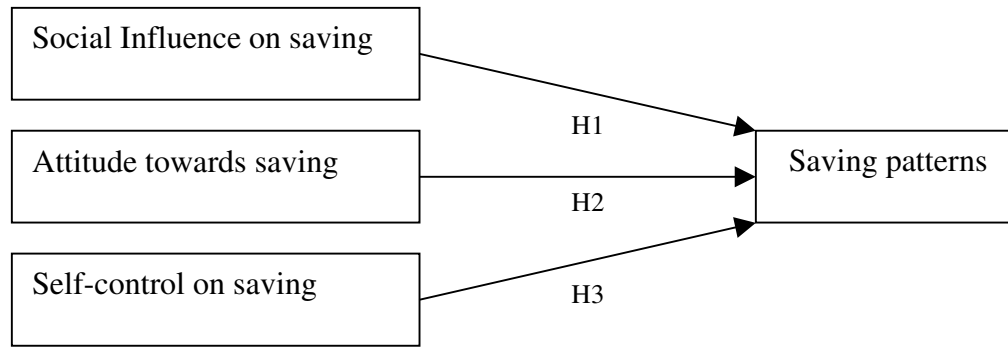
Savers that resided at Klang valley and aged 21 years and above are selected as the sample unit. Quota sampling was selected in this study in order to achieve a specific quota for each age cohort. The data were collected through self-administered questionnaire survey and telephone survey from March to April 2010. A total of 500 questionnaires were distributed to targeted respondents but only 400 cases were used for the further analysis. SPSS version 15 is being used as data entry and data analysis. The profile of respondents was summarised in Table 1.

3.2. Measures

Questionnaire was developed and used as instrument to gauge the relevant information for this study. The first part was consisting of seven items on the demographic profile of respondents. The second part aims to find out the saving patterns among the respondents. This section is started with identifying the saving rate among the respondents. The saving rate is categorized into: save below 10 per cent of annual income, save 11 per cent- 20 per cent of annual income, save 21 per cent - 30 per cent of annual income, and save more than 31 per cent of annual income. The third part examines the respondents' sociological and psychological responses on saving, respondents' attitude towards saving, and self-control of the respondents. All the variables measured by three to five observed variables on a 1 to 5 scale where 5 indicates highest of agreement. The items of this part were adopted and modified from the works by Sonuga-Barke and Webley (1993), Webley and Nyhus (2006), Otto (2009), Furnham (1985) and Hoch and Loewenstein (1991).

4. Theoretical Framework and Research Model

The relationship between social influence, attitude towards saving, and self-control on saving are depicted at Figure 1.

Figure 1: Hypothesis Development

4.1. Hypothesis

In order to check the relationship between the independent and dependent variables, three main hypotheses and eighteen sub-hypotheses were developed.

H1: There is significant relationship between social influence and saving.

H1a: There is significant relationship between ethnic cultural regarded thrifty act as highly valued and saving.

H1b: There is significant relationship between parents emphasized to one on the importance of saving and saving.

H1c: There is significant relationship between one taught how to save in school and saving.

H1d: There is significant relationship between one get influence on the new information about saving from mass and electronic media and saving.

H1e: There is significant relationship between one always include his/her family members on his/her financial planning and saving.

H1f: There is significant relationship between one has to save as much as one colleagues and friends do and saving.

H2: There is significant relationship between attitude towards saving and saving.

H2a: Attitude towards saving money that makes people more independent will have a positive effect on saving.

H2b: Attitude towards one way to become wealthy is to save will have a positive effect on saving

H2c: Attitude towards one must still save even in the time of high inflation will have a positive effect on saving

H2d: Attitude towards children should be taught in school the benefit of saving will have a positive effect on saving

H2e: Attitude towards deny oneself certain pleasures so that one can save money will have a positive effect on saving

H2f: Attitude towards not so many people on social security if they had been taught to save will have a positive effect on saving

H3: There is significant relationship between self-control and saving.

H3a: There is significant relationship between avoidance and saving.

H3b: There is significant relationship between distraction and saving.

H3c: There is significant relationship between precommitment and saving.

H3d: There is significant relationship between economic cost assessment and saving.

H3e: There is significant relationship between time binding and saving.

H3f: There is significant relationship between budgeting and saving.

5. Analysis

Table 1: Profile of Respondents

Measure	Percent	Frequency	Measure	Percent	Frequency
Gender			Education Level		
Male	49.8	199	Diploma	22.0	88
Female	50.3	201	Degree	30.8	123
			Postgraduate	14.8	59
Age group			Others	32.5	130
21 – 30 years old	25.0	100	Income Level		
31 – 40 years old	25.0	100	RM12,000 and below	21.0	84
41 – 50 years old	25.0	100	RM12,000 – 24,000	17.5	70
51 and above	25.0	100	RM24,001 – 36,000	28.0	112
			RM36,001-RM48,000	22.3	89
Race			More than RM48,000	11.3	45
Malays	31.3	125	Percentage of annual income is being saved for the past year		
Chinese	21.8	87	Below 10%	10.0	40
Indian	29.0	116	11% - 20%	30.8	123
Others	18.0	72	21% - 30%	33.0	132
Marital Status			More than 31%	26.3	105
Single	34.5	138			
Married	59.0	236			
Others	6.5	26			

Total cases = 400

Figure 2: Saving Motives of Respondents

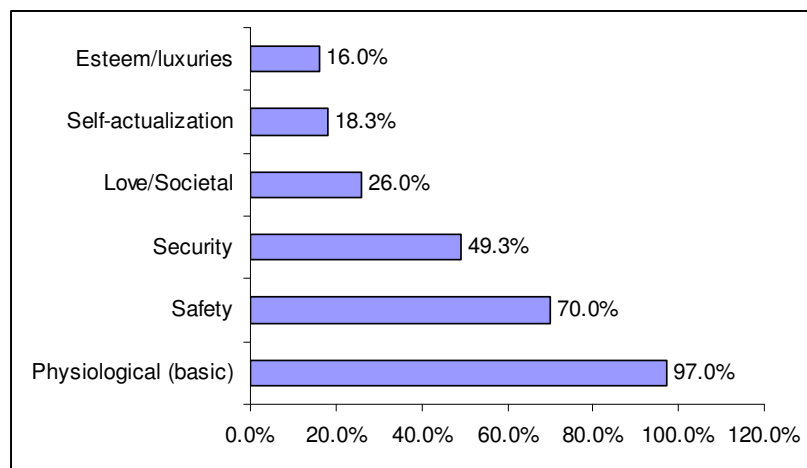


Table 2: The Results of Ordinal Regression

Hypothesis	B	SE	Wald	95% Confidence Interval for Odds Ratio		
				Upper Bound	Odds Ratio	Lower Bound
H1a	-0.105	0.124	0.721	-0.348	0.900	0.138
H1b	0.161**	0.059	7.383	0.045	1.174	0.277
H1c	0.036	0.069	0.272	-0.099	1.037	0.172
H1d	-0.023	0.063	0.138	-0.147	0.977	0.100
H1e	0.096	0.057	2.890	-0.015	1.101	0.207
H1f	0.104	0.077	1.832	-0.047	1.109	0.254
H2a	-0.040	0.058	0.486	-0.154	0.960	0.073

Table 2: The Results of Ordinal Regression - continued

H2b	0.038	0.065	0.348	-0.089	1.039	0.166
H2c	-0.048	0.073	0.441	-0.192	0.953	0.095
H2d	-0.080	0.076	1.127	-0.229	0.923	0.068
H2e	0.117	0.064	3.407	-0.007	1.124	0.242
H2f	0.109	0.068	2.570	-0.024	1.115	0.242
H3a	0.733***	0.095	60.064	0.548	2.081	0.918
H3b	0.852***	0.084	103.739	0.688	2.344	1.016
H3c	0.841***	0.089	89.775	0.667	2.318	1.014
H3d	0.983***	0.094	108.789	0.798	2.672	1.168
H3e	0.841***	0.084	99.498	0.676	2.319	1.006
H3f	1.491***	0.134	123.556	1.228	4.439	1.753

Link function: Complementary Log-log.

Note: $R^2 = 0.92$ (Cox & Snell), 0.99 (Nagelkerke), 0.96 (McFadden). Model $\chi^2(18) = 46.31$, $p < 0.001$. * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

6. Discussion

Figure 2 shows the saving motives among the respondents. Almost all the respondents (97%) saved because saving is important for them to buffer daily expenses, to meet unforeseen circumstances, for investments, for paying down payment (house, car, etc), and for retirement. Xiao and Noning (1994) assert that these saving motives are derived from the humans desire to satisfy their basic needs. Therefore, this saving motif is more impressed in the mind of people. On the other hand, the higher-order saving motives such as, love or societal motive (saving for wedding, saving for children's education, saving for charity), esteem or luxuries motive (refers to saving to bequest for family and saving for charity) and self-actualization motive (saving for vacation and saving to improve standard of living) have received lesser votes. One possible reason is that higher-order saving motives are less frequent appeared on the mind of people unless the lower saving motives had been satisfied (Xiao and Noning 1994).

In terms of saving rate, it is identified that the majority of the respondents (33%) have saved 21 to 30 per cent of their annual income (Table 1). This result is quite similar with the HSBC Bank's assertion that Malaysians save on average of 25 per cent of their annual income. There were about one fifth of respondents able to save more than 31 per cent of their annual income. On the other hand, about 10 per cent of respondents reported they only saved less than 10 per cent of their annual income.

Ordinal regression is chosen for the analysis as the dependent variable is measured in ordinal scale. This regression is aimed to analyse the impact of social influence, attitude towards saving, and self-control on saving patterns of savers. Preliminary analyses are conducted to ensure no violation of the parallel lines assumption and multicollinearity. In short, the ordinal regression analysis shows that the one hypothesis from social influence and all the hypotheses (six hypotheses) from self-control are significant. However, none of the hypotheses form the attitude towards saving is significant (Table 2). Therefore, hypothesis 1b and all the hypotheses 3 are supported.

Budgeting has the strongest impact on saving, followed by economic cost assessment, and then, distraction towards saving. The findings implied that those who always budget their expenses, think of something else if him or her tempted to spend on something which him or her really does not need (distraction), concern of economic cost assessment, think of the positive aspects of deferring a purchase (time binding), tend to bring only a small amount of money when going shopping (precommitment), avoid going to those places that will make me spend on something impulsively (avoidance) and my parents always emphasized to me the importance of saving during young time are more like to save more. Thus, those who have higher self-control power and those who cultivated by parents of importance of savings since young, are tend to save more. This is echoed to the psychology model of saving that developed by Warneryd (1999). In addition, the study also ascertained of the findings of Webley and Nyhus (2006) that there is significant parental influence to children's saving.

The study also further supports the ability to exercise self-control in delaying gratification and resisting the temptation to spend (Thaler, 1994; Rabinovich and Webley, 2007).

7. Conclusion and Implications of the Study

This study will help retail banks to gain a better understanding of the savings behavior among the savers in Malaysia. By referring to this study, it enlightens retail banks to think of scrutinizing the strengths and weaknesses of their financial products so that better financial products can be developed in meeting savers' needs. In addition, there is need for financial consultants in the bank to think of providing the relevant training related to leverage the psychological variables especially, parental factors and self-control factors in convincing targeted customers.

As the competition level of the banking industry in Malaysia has intensified, it is thus important to ensure that retail banks are more prepared in meeting this challenge. Therefore, this research will help those retail banks to craft out better products and marketing strategies so that they can be more competitive in attracting and retaining customers. On the other hand, as a suggestion, government agencies and non-government organizations (NGOs) can also play their part in creating awareness on personal finance by having collaboration activities with banks.

8. Limitations and Recommendation for Future Study

One of the limitations is that the time factor has restrained this study to draw on larger sample size. It is belief that the results will be more accurate and representative if larger sample size is drawn. Another limitation of this study is that there is limited comprehensive psychological research on saving. Therefore, there is limited comparison can be made in this study.

It is worth to note that this study is limited to only a very narrow range of criteria associated with psychology of saving. Therefore, it is recommended that future study can be devoted in the following areas. Firstly, human behavior is more complicated that it was. It is urged that future study can incorporate more psychological variables in studying psychology of saving and establishing a more detailed relationship that can better describe saving behavior. Second, this study focuses only on the psychological state of the savers. It does not draw on to the psychological state of the non-savers. Detailed comparisons between the psychological similarities and differences between the savers and non-savers will help the policy makers to craft the savings policies more effectively.

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