FINANCE MATTERS
UNDERSTANDING GEN Y

Bridging the Knowledge Gap of Malaysia’s Millennials
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Managing money well and making good financial decisions are essential life skills that ensure long-term financial fitness. However, these are not skills we are born with, but must be learned over a lifetime. With the ever-increasing complexity and diversity in financial products and markets, the young generation of financial consumers are more likely to have to bear more financial risks than the generations before them.

Conventional wisdom has it that financial knowledge has the greatest effect on eliciting responsible financial behaviour. We have seen greater efforts by both public and private sectors to improve financial literacy amongst young people by equipping them the necessary knowledge and skills they need to become informed consumers and investors. Yet the reality is that many Gen Ys are already experiencing financial stress early in their life despite being the most educated generation to date.

This observation points to the dire need for behavioural changes in money management. Many researches in behavioural finance have shown a big gap between perceptions and actions in daily financial matters of young people. Gen Ys who are characterised as pragmatic, highly optimistic and well educated; are said to not understand the concept of short-term sacrifice for long-term gain. They want it all, now. They may be digital savvy, but when it comes to money matters, most of them are not financially savvy.

It is for these compelling reasons that we undertook a study to have a better understanding of Malaysian Gen Ys’ financial intelligence and their attitude towards finance. Based on a survey
of more than 1,000 young professionals aged between 20 and 33 years old, this report provides the financial services industry with a unique insight into the financial attitudes, knowledge and behaviour of this generational cohort.

This report reveals a picture of a generation that is on the road to financial stress with many of them living beyond their means, are trapped in emotional spending and are on the edge of a financial cliff. Many of them are on the back foot when it comes to long-term financial security as they accrue debt before they even enter their professional career life. Their impulse-buying behaviour and “buy-now-pay-later” behaviour are tied to the basic want for instant gratification and brand consciousness.

Another core theme to emerge from this study is that Gen Ys are over confident of their financial knowledge. Growing up in a Do-It-Yourself world with information at their fingertips and technology is second nature, they are wary of seeking financial advice, as they prefer to do their own financial planning. Many also believe they either can’t afford it or don’t have enough money to invest. But what is worrying is that many Gen Ys are sceptical of the professionalism of financial advisors and planners.

Insights such as these are vital for the financial services industry in understanding key financial pressures that affect Gen Y working professionals. We hope that this report will inspire policymakers and financial institutions to seek innovative approaches that will make meaningful impact in the financial future of Gen Ys.

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EXECUTIVE SUMMARY

Gen Ys in Malaysia make up the largest population of consumers, have a high level of spending power and make informed decisions on their purchases. They have grown up with modern information technology, including smart phones, and are well-educated and socially networked. Gen Ys utilise the internet as their primary channel of information-gathering and communication. As the Baby Boomer-generation in Malaysia retires from the workforce, Gen Ys will increasingly be taking over more senior positions and will form the largest consumer segment.

AIF studies indicate that Gen Ys are accruing debt at an earlier age and lack understanding when it comes to financial planning. In efforts to understand this issue, this report shines a spotlight on the financial behaviour of Gen Ys, and examines their levels of financial intelligence. Gen Ys are all about “living in the moment”, but will this “spend now, save later” way of life hinder their financial future?

Understanding the current financial literacy levels of Gen Ys can better equip organisations to understand this important demographic group. Understanding what motivates Gen Y employees beyond levels of compensation, and drilling deeper into how Gen Ys obtain their financial knowledge as well as understanding what they do with this information and how they ultimately manage their finances, sheds light on this important customer segment.
Gen Ys Lack Confidence in Financial Literacy
58% rated themselves as having average financial knowledge and only 28% felt confident in their financial literacy and ability to handle day-to-day financial matters.

Gen Ys are Living on the Financial Edge
The majority are living on high cost borrowing with 38% reporting taking out personal loans and 47% engaged in expensive credit card borrowings.
Gen Ys are Experiencing Money Stress
70% owning credit cards tended to pay the minimum monthly payment and 45% did not pay debt on time at some point.

Gen Ys Look to Personal Network for Advice
65% said family/friends/co-workers are their primary source of financial information and advice.

Gen Ys Shun Professional Advice
Only 37% sought financial advice from a professional advisor/planner and only 26% who dealt with a financial advisor said they trusted the advice they received.
BRIDGING THE KNOWLEDGE GAP OF MALAYSIA’S MILLENNIALS

FINANCIAL KNOWLEDGE OF GEN Y
When it comes to financial knowledge, the majority of Gen Ys (58%) rated themselves as average, while only 28% felt confident with their financial literacy and ability to handle day-to-day financial matters (Figure 1). However, 41% of respondents claimed to have received a formal financial education (Figure 2).

**FIGURE 1:**
How would you assess your overall financial knowledge?

Overall Financial Knowledge (%)

![Bar chart showing financial knowledge distribution: 58% Average, 27% Good, 12% Poor, 2% Very poor.]

When asked about more detailed aspects of finance, only 28% of respondents were aware of financial risks while only 36% said they had knowledge of financial products offered in the market (Figure 2). These findings suggest that the majority of Gen Ys lack an understanding of both financial products and an appreciation of financial risk. Figure 2 reveals that Gen Ys have basic financial knowledge, which includes knowledge of investments and the ability to make informed financial decisions. Hence, the results of the study seem to point to a disconnection between reality and perception amongst Gen Ys regarding their perception of financial management.
**FIGURE 2:**
Extent of Gen Ys’ Knowledge of Financial Products being offered in the Market

- **Formal financial education**
  - Agree: 41%
  - Neutral: 45%
  - Disagree: 14%

- **Aware of financial risk**
  - Agree: 28%
  - Neutral: 58%
  - Disagree: 14%

- **Well informed financial decisions**
  - Agree: 46%
  - Neutral: 41%
  - Disagree: 13%

- **Knowledge to diversify investment**
  - Agree: 40%
  - Neutral: 42%
  - Disagree: 18%

- **Knowledge on interest/profit rates**
  - Agree: 55%
  - Neutral: 34%
  - Disagree: 11%

- **Knowledge of financial products**
  - Agree: 36%
  - Neutral: 42%
  - Disagree: 22%
Even in this age of online, anytime information, family and friends still lead as the primary information resource for finance and finance related matters. When asked about the source of their financial knowledge, 65% of respondents stated that they obtained information regarding financial matters from family, friends and co-workers (Figure 3). On the flip side, this may be a cause for concern, as the advice they are receiving is not likely to be coming from a professional source.

Family/friends/co-workers were perceived as trustworthy advisors when it comes to financial management. This suggests that financial institutions would benefit from leveraging on the strong link Gen Ys have with their parents in relation to financial products. Financial institutions should therefore focus on the parent-Gen Y dynamics and target both groups with tailored information. These dynamics between Gen Ys and their parents also suggest that more efforts should be made to start building practical money management skills at home itself.
The internet is the second most frequent source of financial information for Gen Ys, with 64% going online to learn about financial products, understand financial jargon, and gain new financial information. This is a generation that grew up entirely online where mobile devices and connective technology are the norm. However, only 37% and 33% of Gen Ys turned to their banks and financial advisors, respectively, for financial information and advice. With a world of information about financial products and investments at their fingertips, the younger generation view their banks and financial advisors less as a source of financial information and more as a place to conduct financial transactions.
Interestingly, only 36% of respondents selected social media as a valued source of financial information. This relatively low appetite for using social media to find this information is a reflection of Gen Ys’ preference to keep their financial activities separate from their social networks.
LIVING ON THE EDGE
Our study reveals that 75% of Gen Ys have at least one source of long-term debt (anything longer than a year) and 37% have more than one long-term debt obligation (Figure 5). Long-term debt obligations include car loans, education loans or mortgages - 56% of Gen Y respondents reported having car loans and 40% had education/student loans as sources of long-term debt (Figure 6). Additionally, mortgages are a major source of long-term debt for 28% of Gen Y respondents. To offset this debt, they are relying on high cost borrowing methods - 38% of Gen Ys reported to taking personal loans, while 47% are engaged in expensive credit card borrowing.
Gen Y’s debt woes have been the result of impulse-buying behaviour coupled with easy access to personal loans and credit card financing. The impulse buying behaviour of this young consumer is tied to the basic want for instant gratification, which is exacerbated by easy access to the world of online shopping. As a tech-savvy generation, these young adults draw on technology for everyday tasks. This includes seamless online purchasing, which encourages the ‘buy-now-pay-later’ behaviour amongst this generation of consumers. Reliance on credit cards for online purchasing has further encouraged this behavioural trait.

Gen Y is also a generation that places a big premium on lifestyle brands - be it getting the latest high-tech gear or the latest fashion. This behaviour is reflected in their financial attitude as shown in Table 1 below. About 40% of Gen Ys agreed that they spend more than they could afford, thus leading to overspending. Added to this is the tendency for Gen Y parents to provide their children with material rewards. Such an approach causes them to value money less by exchanging it for fun, pleasure, excitement, self-esteem and confidence, relationships and friendships. This approach therefore feeds on their impulse-buying behaviour. As a result, many of them stay in debt using credit card lending much longer than they ever intended.

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<th>Disagree (%)</th>
<th>Neutral (%)</th>
<th>Agree (%)</th>
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<tr>
<td>I spend more than I could afford</td>
<td>27</td>
<td>33</td>
<td>40</td>
</tr>
<tr>
<td>I pay my debt on time</td>
<td>9</td>
<td>36</td>
<td>55</td>
</tr>
<tr>
<td>I always pay the monthly minimum payment for my credit card</td>
<td>30</td>
<td>44</td>
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The findings in this report provide an important lens on consumer behaviour of millennials today - it suggests that they have little knowledge about how to make wise purchasing decisions. As a result, only 30% of Gen Ys surveyed said they live comfortably within their current income, suggesting a generation that is experiencing financial stress (Figure 7).

In terms of attitude towards debt repayment, the majority (70%) of Gen Ys with credit cards tend to pay the minimum monthly payment at some point. However, only 55% said they pay their debt on time, suggesting that nearly half of Gen Ys delay paying debts. Proactively addressing this issue of debt management should be at the forefront of financial education provided to Gen Ys to ensure both short-term and long-term financial stability and security.
APPETITE FOR SAVINGS AND INVESTMENTS
Contrary to popular belief, savings habits of Gen Ys are actually much better than perceived. About 64% of working Gen Ys surveyed said they save a portion of their income every month. Of those who did save, 54% said they saved at least 20% of their income (Figure 8).

The survey findings, as shown in Figure 9, also reveal that Gen Ys’ appetite for savings grow with age. The highest proportion of savers was the 27 to 33 years age bracket (57%). Despite their spendthrift behaviour, which is reflected by their credit card debt burden, Gen Ys’ positive saving habit suggests that they are conscious of the value of money, but may not currently have the necessary knowledge to manage it effectively. Studies on Gen Y savings habits also show that, although they do develop good saving habits, these savings tend to be focused on short-terms goals.
Investments are not a priority for Gen Ys as only 23% invest more than 20% of their monthly income (Figure 10). About 35% claimed to invest between 10% and 19% of their income and 40% of Gen Ys surveyed said they invest less than 10%.

In terms of ownership of investment products, the majority of Gen Ys surveyed said they owned unit trusts (52%) and insurance/takaful products (51%) as shown in Figure 11. Only 9% invest in the stock market, which suggests a conservative approach to investment with a low tolerance for risk. Their cautious investing habits reflect the challenging economic conditions they may have seen during the dot-com bubble in the late 1990s and the global financial crisis of the past decade. Because of those unsettling experiences, it is not surprising that Gen Ys are apprehensive about risking their money in the stock market.
Gen Ys’ behaviour towards investment decisions is lukewarm. Only 41% said that they diversify their investments into different investment products (Figure 12). Similarly 42% claimed to take into account retirement plans when making financial decisions. The fact that over 41% of Gen Ys responded neutral to both statements suggests their limited financial knowledge of long-term investments.
Living expenses constitute the largest chunk of expenses for both genders; females allocate 31% of their income towards living expenses followed by loan repayments (24%) and spending on lifestyle items (17%). Males allocate 30% of their income to living expenses, 24% on loan repayments and 16% on lifestyle expenses (Figure 13). This implies that gender-wise there is no significant difference in Gen Y spending.
FIGURE 14:
Financial Knowledge vs Spending (%)

- Loan Repayment
- Living expenses
- Lifestyle
The indications are that there is a steady rise in loan repayment levels as Gen Ys go up the income bracket (Figure 15) thus, implying (not surprisingly) that it is easier to get a loan or financing approved by banks in a higher income group, as compared to a lower income bracket. Gen Ys at higher pay scales are more highly leveraged compared to ones at lower pay scales, indicating that there is a higher rate of debt accumulation among the more affluent Gen Ys. This may also reflect the risk profile adopted by conventional financial services organisations.

**FIGURE 15:** Income vs Spending
FINANCIAL ADVICE AND TRUST
Gen Ys are optimistic, experimental, confident and well-educated. However, the study revealed that only about 37% of Gen Ys sought professional advice on financial matters. This lack of engagement with financial advisors probably stems from their sceptical view of the value of financial advice itself as many of them believe they can find this information more easily by themselves. Again, this is a reflection of the DIY world they grew up with.

But when Gen Ys do seek financial advice, they are looking for advice that is specific to them and which will sustain their financial well-being. The top three specific areas where Gen Ys sought advice from professional advisors were savings and investments (56%), advice on mortgages or loans (41%) and retirement planning (32%) – as shown in Figure 16. This is an indication that there is a segment of Gen Ys, which is concerned about long term savings and investments.
The majority (63%) of Gen Ys who did not opt to seek advice from financial advisors or planners cited ‘prefer to do it on my own’, ‘not interested’ and ‘too expensive’ as the top 3 reasons for not using the latter’s services (Figure 17). Gen Ys are sceptical about the value of financial advice, because the majority of them (71%) feel they have the ability to find this information themselves. As a result, 62% of Gen Ys said they were not interested in using financial advisors or planners. Cost appears to be the biggest hindrance to enlisting the help of a qualified financial planner, with 62% of Gen Y respondents saying they think using a planner is expensive.

Gen Ys’ perception that financial advice is expensive, and instead seeking advice from family and friends (51%), could have major ramifications on their financial health. While it is encouraging to see that financial matters are being discussed with family and friends, it’s still important for Gen Ys to seek the help of a qualified professional to ensure that the advice is sound and tailored to their individual needs and circumstances. There is a message here to financial services institutions who may need to think differently about providing advice to this segment of the market and to review their pricing for such advice.
When asked to describe their experience and levels of trust with financial advisors, only 26% of respondents agreed that they trust their financial advisors; 27% were satisfied with the services provided; and only 22% agreed that they relied on financial advisors for financial portfolio matters (Figure 18). Also Figure 18 highlights serious concerns about the ability of financial advisors to provide unbiased, professional advice. On average, only a quarter of Gen Y respondents agreed that financial advisors are able to answer inquiries, give advice that suits their needs, provide impartial and fair service, and are reliable.

The level of distrust is alarming for financial institutions and agencies/associations and is consistent with the populous view of the sector post the financial crisis. Such an environment has led to a distrust of financial advisors. This raises the issue of whether financial advisors show a satisfactory level of professionalism and ethics towards their clients. It is therefore vital for financial institutions to use effective communication and marketing strategies such as using social media and blogs to mitigate this lack of trust.
When asked to rank the benefits of having professional advice, respondents revealed that understanding long term goals, reducing financial risks and facilitating financial planning were their top three benefits (Figure 19).

Clearly, Gen Ys are cautious and conservative banking customers who are less trusting of financial advisors. In addition, the majority of the respondents who sought financial advice had good to average financial knowledge and were earning salaries of more than RM 4,500 per month (Figures 20 and 21). This suggests that there is a gap which financial institutions can bridge by formulating strategies to create awareness amongst the lower income group (individuals earning less than RM 2,000) about the importance of financial knowledge.
Financial Institutions need to ensure that their financial advisors are equipped with the necessary skills to have a positive influence on Gen Ys. They need to be able to understand Gen Ys’ long term goals by suggesting products that help reduce financial risks. The key to gaining market share lies in the ability to reach out to Gen Ys through multiple communication channels. There is an opportunity for financial institutions to develop a business model which can reach out to the Gen Y segment in a more transparent and relevant way by assisting them to take financial decisions more confidently.
RECOMMENDATIONS AND ADVICE TO INCREASE THE FINANCIAL LITERACY LEVELS OF GEN Y
Recommendations

1. Learning institutions collaborating with financial institutions to enhance Gen Ys’ financial awareness

It is important for Gen Ys to get into the habit of saving and investing for the future. Financial institutions can collaborate with higher learning and vocational training institutions to conduct short introductory seminars and workshops, thus creating awareness about financial products and service offerings. Effective financial education will increase Gen Ys’ confidence in planning and managing their finances well, which in turn will enhance their overall financial welfare and encourage a better participation in financial markets. As an example, SIDC took the initiative to run literacy programmes such as “Kids & Cash” for primary school students, “Teens and Cash” for secondary school students and “Cash @ Campus” for university students.

2. Engagement using social media

Due to the tech-savvy lifestyle of the Gen Y employee, financial institutions should focus their marketing efforts on social media channels. When it comes to receiving information, Gen Ys are more comfortable interacting with financial advisors through social media. Almost 1 in 5 Gen Y customers go beyond financial institution websites when researching financial products, turning to social networks to seek the opinions of their peers about the services they are interested in.

Social media sites and applications can open a window into an organisation’s operations. Large European banks have been adding staff to respond to Twitter users who have questions. Furthermore, Facebook can be a useful tool for delivering multimedia content, including pictures and videos, to deliver product messages. Financial Institutions can also host and facilitate online communities and common interest groups encouraging financial literacy, as well as providing targeted product offers through smartphones.
3. **Marketing strategies based on segmentation**

Financial institutions can market their financial products more effectively using segmentation to inform product positioning and differentiation, as well as focusing more on needs-based offerings. There is scope to offer customised products for each segment to create a pull towards saving and investment. Marketing initiatives should be segmented and customised based on appropriateness. Gen Ys are generally impatient and their tendency to plough through lots of advice on terms and conditions is fairly low.

4. **To educate not just Gen Ys, but also their families, friends and co-workers**

Gen Ys' primary source of financial knowledge is their family, friends and co-workers. Therefore it is vital that financial and training institutes take up the challenge of not only training Gen Ys, but also training their primary information providers. Marketing to parents is crucial in reaching the younger Gen Ys. Financial institutions need to influence the influencers in order to have a greater impact in terms of getting their message across to Gen Ys. This approach could include blogs and interactive seminars for families.

5. **Having the right technology**

Financial institutions in Malaysia have a tremendous opportunity to market to the majority of Gen Y consumers. Yet to capture new Gen Ys and retain existing customers, they need to have the right technology and tools in place. Financial institutions must develop a better understanding of the ways Gen Y consumers use technology and consume financial services. They must quickly develop strategies to satisfy these preferences. To resonate with Gen Ys, banks need to offer impeccable service along with a complete command of web 2.0 technology. Mobile banking is one of the technologies most preferred by Gen Ys as they are always on-the-go with their smart phones.
6. Financial institutions adopt more stringent screening of credit/lending applications

Amidst the current financial situation, it is now even more critical for Gen Ys to improve financial literacy and better administer their finances. Changes in the financial markets and macroeconomic factors have made loans, credit cards and other financial products easily accessible to Gen Ys and there is now a greater chance of debt accumulation among Gen Ys. This can be reduced through adopting more stringent screening of credit/lending applications.
Advice for Gen Ys

Grab opportunities to gain financial management knowledge from mainstream channels such as from higher learning institutions.

Understand debt and respect it. Know the potential damage it can do unless controlled.

You are never too young to seek financial advice. Consultation with a professional can help carve out a plan that suits your savings and investment needs.

Consult ‘qualified’ financial advisors to get the information and confidence you need to make educated investment decisions.

Supplement your advice from family, friends and co-workers with other informed advisors.
Advice to financial services industry

Collaborate with higher learning institutions and training institutes in educating Gen Ys on financial management.

Enhance levels of professionalism amongst financial advisors.

Offer online personal financial management platforms that are simple and also low-cost.

Offer financial products for both parents and their children.

To engage with Gen Ys, financial advisors need to take a broader and more educational role.
PROFILE OF RESPONDENTS
Total number of respondents: 1,011

- Gender: Male 53%, Female 47%
- Marital Status: Married 60%, Single 40%, Separate/Divorced/Widow 1%
- Age Bracket: 20-26 yrs 60%, 27-33 yrs 40%
- Income Level (monthly): RM<1,500 8%, RM1,500 - RM3,000 32%, RM3,001 - RM4,500 17%, RM>4,500 43%
- Highest Qualification: Diploma 52%, First degree 20%, Diploma 13%, Others 1%
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