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Tajuk : *Lifestyle Choices Driving Bankruptcy Among Civil Servants, Experts Say*

Lifestyle Choices Driving Bankruptcy Among Civil Servants, Experts Say



KUALA LUMPUR, Oct 14 — The issue of public servants falling into bankruptcy is not a recent phenomenon.

The growing number of civil servant bankruptcies is a matter of increasing concern. The Insolvency Department recently reported that public servants accounted for 10 to 13 per cent of new bankruptcy cases registered nationwide over the past four years.

Director-General of the Insolvency Department, Datuk M Bakri Abd Majid has said, such cases should not occur, as excessive indebtedness is a clear violation of the Public Officers (Conduct and Discipline) Regulations 1993.

He added that in some cases, public servants have voluntarily filed for bankruptcy as a means of alleviating prolonged debt pressure.

Bankruptcy among civil servants is also seen as a potential trigger for integrity issues and a decline in productivity, as financial stress takes its toll on their performance.

Following trends

Sharing insights on the issue, Norasikin Salikin, a lecturer from the Faculty of Economics and Muamalat at Universiti Sains Islam Malaysia, said several factors contribute to public servants' vulnerability to bankruptcy.

A key factor is that some public servants are easily influenced by the social status of those around them, striving to appear 'stylish' without considering their financial limitations. This often results in overspending as they try to keep up with the lifestyles of others and follow current trends.

"This leads to a lack of self-control as they try to emulate the latest lifestyle trends, often beyond their financial means. There is also a tendency to show off to maintain their social image," she told Bernama.

Norasikin noted that the availability of credit cards, particularly to newly employed public servants, further exposes them to the risk of high indebtedness.

She said many of those new to the workforce are often misled by banks and financial institutions about the convenience and advantages of credit card usage.

As a result, financially inexperienced individuals may find it challenging to manage their spending, especially when it comes to using credit cards.

"Data from the Credit Counselling and Debt Management Agency (AKPK) indicates that bankruptcy frequently begins with credit card usage, and public servants are no exception.

"New credit card users may struggle to manage their spending and eventually max out their credit limits," she added.

She explained that when they are unable to settle their credit card debt, public servants often resort to applying for personal loans to cover their existing obligations.

Additionally, she said, some public servants resort to refinancing (overlapping) their existing personal loans after failing to manage their credit card usage.

"This happens when they use a personal loan to settle their credit card debt the first time, but unknowingly continue to use the credit card for spending. As a result, they take out another personal loan to pay off the previous one, as well as the credit card debt.

"This cycle continues until they are no longer able to repay their debts, ultimately facing bankruptcy," she added.

Financial institution offers

Elaborating further, Norasikin said aggressive loan offers from banks, cooperatives, and other financial institutions targeting public servants have heightened their exposure to debt risks.

The allure of low repayment rates often entices public servants into borrowing from these institutions.

"It cannot be denied that financial institutions contribute to this issue. The extensive promotions by banks and cooperatives offering low interest rates and favourable terms indirectly encourage public servants to apply for loans.

"Most financial institutions do not consider external commitments or expenses that do not appear on the salary slip, such as family daily expenses or other financial obligations like vehicle loans. This oversight results in public servants bearing a significant debt burden," she explained.

Norasikin emphasised that financial institutions should conduct a thorough financial assessment of public servants before approving any loans.

“For example, tightening the debt ratio, which currently has a minimum of 60 per cent, could be reduced to 40 per cent,” she suggested.

Echoing this sentiment, Dr Khadijah Md Ariffin, a senior lecturer at the Faculty of Technology Management and Business at Universiti Tun Hussein Onn Malaysia, noted that the growing number of cooperatives recently has made it easier for public servants to secure loans.

She noted that cooperative loans have become increasingly popular among public servants due to their competitive interest rates and more lenient loan criteria compared to banks. Additionally, she observed that most cooperatives do not prioritise the credit scores of potential borrowers when approving applications.

“Banks have stricter credit evaluations compared to cooperatives, and the documentation required for cooperative loan applications is typically less extensive.

“As a result, public servants tend to prefer loans from these institutions. If public servants can manage their repayments, the risk of bankruptcy may be mitigated,” she explained.

She said while cooperatives have the flexibility to establish their own financial procedures and regulations, these should align with relevant legal requirements to prevent public servants from falling into excessive debt.

President of Angkatan Koperasi Malaysia Berhad (Angkasa), Datuk Seri Abdul Fattah Abdullah, was quoted to have said earlier, cooperatives manage approximately RM1.2 billion per month, or RM14.4 billion annually, in repayments from an estimated 800,000 public servants who have taken loans from various financial institutions and cooperatives.

The total loan amount fluctuates continuously as repayments are made and new applications are approved daily.

Abdul Fattah also noted that public servants in grades 41 and below are more likely to apply for loans due to their relatively low salary increments.

Consequently, they apply for personal loans, with most of these borrowers being newly employed public servants or recent university graduates.

Lack of financial knowledge

Khadijah emphasised that the lack of financial literacy is a major factor contributing to serious debt issues among public servants.

“The government could make it compulsory for all employees to attend at least one financial management course annually as part of their training to meet Key Performance Indicators (KPIs),” she said.

“These courses could cover various aspects of financial management, including budgeting, cash flow management, debt repayment strategies, as well as savings and investment planning,” she added.

Furthermore, Khadijah suggested that the government could maximise the role of the AKPK by regularly engaging with public servants, as many struggle with financial issues but are either unaware of available resources or too embarrassed to seek assistance.

All government agencies should take preventive measures for employees identified with debt exceeding the permissible limit.

“In addition to issuing letters requesting written explanations about their level of indebtedness, these individuals could be required to attend specialised financial courses to prevent future bankruptcy.

“The government could also create platforms to provide emotional support for those under financial stress. Addressing mental health impacts would not only benefit the individuals but also improve the job performance of public servants, ultimately benefiting the government,” she added.

Cost of living

Addressing the issue of poor debt management among public servants as a complex challenge, Khadijah noted that many often fall into unnecessary debt. In addition to being labelled as a group prone to the habit of ‘clearing old debts by taking new ones,’ they struggle to live within their means.

She explained that while the cost of living has increased over the past few years, this should not serve as an excuse for public servants to spend without proper financial control.

Many fail to assess their financial “health” and do not consider their long-term commitments or the current economic situation, leading to an inability to repay their debts.

“The critical factor is that they fail to live within their means... I believe that the current economic environment isn’t solely to blame for pushing public servants into bankruptcy.

“Often, wants are mistakenly perceived as needs, which entangle public servants in unnecessary debt,” she added.

Meanwhile, Anis, a 32-year-old public servant, acknowledged that low wages are one of the reasons why not only she but many of her colleagues are quick to apply for loans.

Anis said that while personal loans may start small, the amount quickly snowballs into tens of thousands of ringgit with additional loans, making it difficult to repay existing debt, leaving her hesitant to borrow again.

“When your salary is low, it’s hard to buy anything. You apply for a loan and receive a large sum, but the money runs out quickly, yet you’re left paying off the debt for years.

“I’ve seen many friends apply for new loans as soon as their salary increases slightly. Maybe they’re just used to borrowing. For me, it’s best to avoid debt... it’s better to live modestly and avoid the headache of paying off loans,” she said.