Bankruptcy in a Plural Society: Ethnicity, Gender, Age and Business Credit in Malaysian Personal Insolvency and the Limits of an Ethnically Neutral 'Second Chance' Policy (2017–2026)

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DOI: https://doi.org/10.47772/IJRISS.2026.101000167

Received: 12 October 2026; Accepted: 17 October 2026; Published: 31 October 2026

ABSTRACT

Malaysian insolvency law is written in ethnically neutral terms, yet the Malaysian Department of Insolvency records every bankrupt by *bangsa*. This article asks what those records reveal about how a formally neutral regime operates in a plural society. Combining doctrinal analysis of the 2017, 2020 and 2023 amendments to the Insolvency Act 1967 with a secondary analysis of official bankruptcy statistics from 2015 to June 2026, it compares each group's share of new bankruptcies with its share of the citizen population. Between 2021 and June 2026, Chinese Malaysians formed 22.2 per cent of citizens but 28.2 per cent of bankrupts, a crude representation ratio of 1.27 (1.18 after adjusting for age structure), and their share rose to over 31 per cent in 2025–2026. Malays were close to parity (0.97 crude; 1.00 age-adjusted), Indians were modestly over-represented (1.15), and other groups, mostly Sabah and Sarawak Bumiputera, were markedly under-represented (0.60). Men made up about 72 per cent of bankrupts. Because the highest-earning group is the most over-represented, the article suggests that ethnic patterns are more consistent with differential exposure to business credit and corporate guarantees than with consumer over-borrowing alone. It argues that the second-chance policy and Budget 2027's rise in the threshold to RM150,000 treat debtors as undifferentiated, and proposes ethnicity-by-cause reporting, culturally competent counselling and zakat-based relief.

Keywords: personal bankruptcy; ethnicity; Insolvency Act 1967; legal pluralism; Malaysia

1. INTRODUCTION

Bankruptcy law rarely mentions ethnicity. The Insolvency Act 1967 (Act 360) refers to debtors, creditors, guarantors, and the Director General of Insolvency (DGI); it says nothing about Malays, Chinese, Indians, Kadazandusun, or Iban. However, the Malaysian Department of Insolvency (MDI) records every bankruptcy order in Malaysia under a column headed *bangsa*. Those figures are published monthly, cited in Parliament, and repeated in the press, usually to note that Malays form the largest group of bankrupts. They have seldom been examined as evidence of how a formally neutral law operates in a plural society.

This gap matters for two reasons. First, over the past decade, the Malaysian state has rebuilt personal insolvency around a rehabilitative idea of the 'second chance'. The Insolvency (Amendment) Act 2017 renamed the Bankruptcy Act, protected social guarantors absolutely and introduced voluntary arrangements. The COVID-19 temporary measures and the Insolvency (Amendment) Act 2020 raised the bankruptcy threshold to RM100,000. The Insolvency (Amendment) Act 2023 expanded discharge by certificate of the DGI and revised automatic discharge. The government presented the 2023 reform as a second-chance policy aiming to discharge up to 130,000 bankrupts within a year (The Malaysian Insight 2023). Most recently, Budget 2027, tabled on 9 October 2026, proposes raising the threshold again to RM150,000 from 2027, and extending the second-chance policy to primary caregivers, gig workers and people with irregular incomes (The Star 2026; The Vibes 2026b). These reforms address debtors as a single, undifferentiated population. If debtors are patterned by ethnicity, gender, and age, a single design may fit some communities better than others.

Second, a growing comparative literature shows that neutral bankruptcy rules can produce sorted outcomes. In the United States, Braucher, Cohen and Lawless (2012) found that African American debtors were far more likely to be steered into the costlier Chapter 13 procedure, even after controlling for financial and legal factors. Kilborn (2025) has traced the slow recalibration of Malaysian bankruptcy policy since 1999 and drawn attention to the role of Islam and individual religious conviction in a majority-Muslim state. However, no study has used Malaysia's own ethnic data to ask who becomes bankrupt, relative to whom, and what implications this has for the reforms.

This article addresses three questions. First, how is each ethnic group represented among new bankrupts relative to its share of the citizen population, and how has this changed between 2015 and 2026? Second, what legal and socio-economic factors plausibly explain the observed patterns? Third, what do these patterns imply for designing an ethnically neutral second-chance policy in a plural and legally pluralist society?

The article makes three contributions. Empirically, it assembles MDI data from 2015 to June 2026 and computes crude representation ratios against official population estimates, together with age-adjusted ratios based on DOSM's estimates of the citizen population by age and ethnicity. Its central finding is a paradox: the Chinese community, which has the highest median household income, is the most over-represented among bankrupts, and this gap is widening. Conceptually, it reads that paradox through the structure of credit, particularly business borrowing and guarantees, rather than through cultural stereotype. Normatively, it argues that a rehabilitative regime in a plural society needs culturally competent gateways, better data, and a recognised place for Islamic debt-relief institutions that civil law currently ignores.

The article proceeds as follows. The next section reviews the literature on the causes and social meaning of personal bankruptcy. The third explains the method. The fourth sets out the legal framework. The fifth presents the findings, and the sixth discusses them. The final sections offer recommendations and conclude.

2. LITERATURE REVIEW

2.1 Bankruptcy as Social Policy

Modern personal insolvency law has moved from punishing the defaulting debtor to rehabilitating him. Jackson (1986) framed bankruptcy as a collective debt-collection device whose discharge serves the debtor's future earning capacity. Comparative work has since treated consumer bankruptcy as a form of social insurance that absorbs the shocks of job loss, illness, family breakdown and business failure (Sullivan, Warren & Westbrook 2000; Ramsay, 2017). The World Bank (2013) recommends that systems for natural persons balance relief with responsible lending and avoid the stigmatising features of older laws. On this view, who uses bankruptcy indicates who bears economic risk without other protection.

2.2 What Drives Bankruptcy in Malaysia

Malaysian research has focused mainly on macroeconomic and behavioural drivers. Time-series studies link bankruptcy to non-performing loans, unemployment and lending rates, though results vary by period and model (Hilmy, Mohd Z. & Fahami 2013; Isa, Ahmad & Zainol 2022; Che-Yahya et al., 2023). A second strand examines young debtors and financial literacy, identifying lending practices, attitudes and lifestyle as risk factors (Mohd Yusoff, Ismail & Hussain 2024). Both strands treat Malaysians as a single population. Ethnicity appears, if at all, as a descriptive statistic.

Official sources add a legal and administrative dimension. The Director General of Insolvency has reported that debtors' own petitions rose from 116 in 2022 and 181 in 2023 to 330 in 2024 (Malay Mail, 2025). Practitioner commentary has examined the 2023 discharge reforms and their effect on creditors (Skrine, 2023b; Chang & Soo, 2025). What is missing is evaluation. Garrido, Kilborn and Rosha (2025), writing for the International Monetary Fund, observe that personal insolvency reforms are often introduced without adequate data or assessment, and argue that systematic data collection is needed both to judge a regime's performance and to inform wider social policy. No Malaysian study has yet asked how the reforms fall across communities.

2.3 Religion, Stigma and the Muslim Debtor

One place where group identity enters Malaysian literature is religion. Abdullah, Hoque, Rahman, and Said (2022) note that Muslims make up the majority of bankrupts and propose Islamic financial literacy as a preventive tool. In a juristic analysis, Abdullah et al. (2023) argue that Shariah's concern for debt repayment is matched by charitable institutions, notably zakat, sadaqah, and waqf, which can protect debtors from bankruptcy. Classical Islamic law addresses the insolvent debtor (*al-muflis*) through judicial interdiction (*hajr*) and the sale of assets. At the same time, the Qur'an enjoins creditors to grant a debtor respite in times of hardship (*al-Baqarah* 2:280). The International Islamic Fiqh Academy has affirmed that bankruptcy requires a judicial decree and that its rulings apply to natural and legal persons alike (IIFA 2013). By contrast, Malaysia's Islamic banking law leaves bankruptcy to the civil Act (Harvard Law School Islamic Legal Studies Program 2016).

Kilborn (2025) offers the most sustained reading of religion's place in Malaysian bankruptcy policy, tracing the motivations behind the shift in policy from 1999 to 2025 and the nuanced role of Islam and individual religious conviction in a majority-Muslim democracy. Abdullah et al. (2023) likewise emphasise the Shariah's genuine concern for debt repayment, giving default a moral as well as a legal dimension for Muslim debtors. However, these accounts address a single community. They do not compare it with others, nor do they consider how credit structures, rather than belief, may differentiate groups.

2.4 Neutral Law, Sorted Outcomes

The comparative literature on race and bankruptcy supplies the missing frame. Braucher et al. (2012) combined case data with an experiment in which bankruptcy lawyers advised fictional couples; when the couple had names associated with Black Americans, lawyers more often recommended the costlier Chapter 13 route. Their point was not overt discrimination but that professional gatekeeping and local legal culture can sort a neutral system. In Malaysia, ethnicity is also an official, 'authority-defined' category that shapes how the state counts and serves its citizens (Shamsul, 1996). Ethnic differences in household income persist: in 2022, the Chinese median household income was RM8,167, compared with RM6,627 for Indians and RM5,793 for Bumiputera (DOSM 2023). Ethnic patterns in business ownership and credit have also long been central to Malaysian political economy (Gomez & Jomo, 1997; Gomez, 1999).

This article brings these strands together. It asks whether Malaysia's neutral insolvency law produces ethnically patterned outcomes and whether culture, credit, or law explains them.

3. METHODOLOGY

The study combines doctrinal legal analysis with a descriptive secondary analysis of official statistics. The doctrinal component examines the Insolvency Act 1967 as amended in 2017, 2020 and 2023, together with official statements on the reforms and practitioner commentary.

The empirical component uses four public datasets. The first is MDI's monthly *Brief Note* series, which reports newly registered bankruptcy cases by year, branch, age group, gender, *bangsa*, cause of bankruptcy, occupation and debt band. Annual figures for 2021 to 2024 and the first half of 2025 were taken from the July 2025 issue (MDI 2025); figures for the whole of 2025 and January to June 2026 were taken from the June 2026 issue (MDI 2026). The second is ministerial replies in the Dewan Rakyat covering 2015 to August 2019 and January 2020 to May 2022, used to describe the earlier period (Malay Mail, 2019; Sin Chew Daily, 2022). The third is the Department of Statistics Malaysia (DOSM) population estimates, including its 2025 estimates of the citizen population by five-year age group and ethnic group, together with its Household Income Survey; these supply the denominators, the age adjustment and the income comparisons (Bernama, 2025; DOSM 2023, 2025b, 2026). A fourth set is official data on business ownership by ethnicity and gender, used as a proxy for exposure to business credit (EPU 2015; SME Corp, n.d.; Lee 2021; DOSM 2025a).

The main measure is a representation ratio: a group's share of bankrupt citizens, divided by its share of the citizen population (see Appendix A for step-by-step computation details). A ratio of 1.00 means proportional

representation; above 1.00 means over-representation. The numerator excludes non-citizen bankrupts (157 cases between 2021 and June 2026) because the population shares refer to citizens. MDI's categories are *Melayu*, *Cina*, *India*, *Lain-lain* and *Bukan Warganegara*. DOSM reports Malays (58.2 per cent of citizens), other Bumiputera (12.3 per cent), Chinese (22.2 per cent), Indians (6.5 per cent) and others (0.8 per cent) (Bernama, 2025; DOSM 2026). MDI's *Lain-lain* is therefore compared with the sum of other Bumiputera and others (13.1 per cent).

Three limitations should be stated at the outset. First, MDI does not publish cross-tabulations of ethnicity by cause, occupation, or debt size, so we infer explanations for ethnic patterns from aggregate data and offer hypotheses to test. Second, the baseline population denominators cover all ages, whereas nearly all bankrupts are adults aged 25 and above. Because the Chinese population has lower fertility and an older age structure than the Bumiputera population, an all-ages denominator overstates Chinese representation relative to the adult population at risk. To test whether the ethnic pattern is merely a demographic artefact, the Findings section supplements the crude ratios with two robustness checks based on DOSM's 2025 citizen population estimates by age and ethnicity (DOSM 2025b). The first is an age-restricted ratio, which compares each group's share of bankrupts with its share of citizens aged 20 and above, and of citizens aged 25 to 64. The second is an indirectly age-standardised ratio, which compares the bankrupts observed in each group with the number expected if national age-specific bankruptcy rates applied to that group's age structure (see Appendix A). Third, MDI records the ethnicity stated in petition documents, which may not match self-identification. The analysis uses only published, aggregated data and involves no human participants; therefore, it did not require ethical approval.

4. THE LEGAL FRAMEWORK: A NEUTRAL SECOND CHANCE

Malaysian bankruptcy law descends from colonial English statute and remained largely punitive until the past decade. Reform since 2017 has followed a consistent theme: fewer people should enter bankruptcy, and those who do should leave it sooner.

4.1 The 2017 Amendments

The Insolvency (Amendment) Act 2017 renamed the Bankruptcy Act 1967 and reshaped access to it. Bankruptcy proceedings against a social guarantor are absolutely prohibited, and proceedings against other guarantors require the court's leave (Conventus Law 2017). Section 2 defines a social guarantor as a person who gives a guarantee not for profit, for instance, for an education loan, a vehicle hire-purchase, or a housing loan for personal use. Guarantors of business loans fall outside that definition (New Straits Times 2024). The 2017 Act also introduced individual voluntary arrangements in sections 2A to 2Q and protected bankrupts with disabilities registered under the Persons with Disabilities Act 2008 (Conventus Law 2017).

4.2 The Threshold

The minimum debt for a bankruptcy petition has risen in steps to RM50,000 in 2017, then to RM100,000 under the Insolvency (Amendment) Act 2020 (Act A1624). Section 5(1)(a) of the Act now requires that the debt owed to the petitioning creditor, or, where two or more creditors join in the petition, the aggregate of their debts, amounts to RM100,000. The protection is therefore a threshold on the petition, not on each debt: several creditors with smaller claims may combine to reach it. Ministerial figures put new bankruptcies at 80,625 between January 2015 and August 2019 (Malay Mail, 2019), an average of about 17,300 a year. MDI data show an average of about 6,000 a year in 2021–2025 (MDI 2025, 2026), a fall of roughly two-thirds. This fall coincides with the higher threshold as well as the pandemic credit moratoria, so the threshold alone cannot be credited as the sole driver of the decline.

Budget 2027 continues on the same path. Tabling it on 9 October 2026, the Prime Minister and Finance Minister announced that the threshold would rise from RM100,000 to RM150,000 with effect from 2027 (The Star 2026). The government also reported that more than 250,000 people had been helped out of bankruptcy since 2023. It extended the second-chance policy to primary caregivers of disabled, chronically ill, or elderly family members, as well as gig workers and others with irregular incomes (The Vibes 2026b). The change will

require amending section 5 of the Act. MDI's debt-band statistics group all cases between RM100,000 and RM499,999 together, at 25.3 per cent of cases between 2022 and June 2026 (MDI 2026), so the share of current bankruptcies that the new threshold would exclude cannot be estimated from published data.

4.3 The 2023 Amendments and the Second-Chance Policy

The Insolvency (Amendment) Act 2023 came into force on 6 October 2023 (Shook Lin & Bok, 2023). It extended section 33A, under which the DGI may discharge a bankrupt by certificate, and barred creditor objection in two new categories: bankrupts unable to manage their affairs owing to mental illness, and those aged 70 and above whom the DGI judges unable to contribute to the administration (The Malaysian Insight 2023). At the time, 19,913 bankrupts aged 70 or more were eligible for such discharge (Skrine, 2023b). Even before the Act, small bankruptcies with debts under RM50,000 meeting set criteria had been discharged under section 33A from 1 March 2023 (Skrine, 2023a). Section 33C was revised so that automatic discharge depends on payment conditions set by the DGI according to the bankrupt's means.

The scale of the resulting discharges is striking. MDI reports 179,146 discharges by DGI certificate between 2022 and June 2026, compared with 5,575 automatic discharges under section 33C and only 250 court discharges (MDI 2026). Bankruptcy cases under administration fell to 91,217 by June 2026 (MDI 2026). Critics have asked whether a five-year discharge by certificate compromises creditors' rights (Chang & Soo, 2025).

4.4 How the Law Sees the Debtor

Each category in this framework is defined by a legal or economic attribute: debt size, purpose of a guarantee, age, disability, mental capacity, duration of bankruptcy, and ability to pay. None refers to ethnicity or religion, which is constitutionally and politically appropriate. However, the protected categories are not ethnically neutral in their effects. The social guarantor exemption protects those who guaranteed consumer and education loans but not those who guaranteed business loans. The age-based discharge may favour communities with older bankrupt populations. Whether these distinctions are evenly distributed across Malaysia's communities is an empirical question, which the next section addresses.

5. FINDINGS

5.1 Ethnic Representation among Bankrupts

Malays are the largest group of bankrupts in every period, but they are not over-represented. Table 1 shows each group's share of new bankrupts in three periods and, for the most recent period, its representation ratio.

TABLE 1. Ethnic composition of new bankrupts and representation ratios

Group (MDI category)	2015 – Aug 2019 (%)	2020 – May 2022 (%)	2021 – Jun 2026 (%)	Share of citizens, 2025 (%)	Representation ratio, 2021 – Jun 2026
Malay	56	58.5	56.4	58.2	0.97
Chinese	25.9	25.3	28.2	22.2	1.27
Indian	11.3	7.5	7.5	6.5	1.15
Others (*Lain-lain*)	6.7	8.6	7.9	13.1	0.6
Cases (*n*)	80,625	17,551	33,179	30.9 million	–

Note: Shares exclude non-citizens. 2015–2019 from Malay Mail (2019); 2020–2022 from Sin Chew Daily (2022); 2021–2026 computed from MDI (2025, 2026). Citizen shares from Bernama (2025); 'Others' compared with other Bumiputera groups plus others.

Three patterns stand out. First, Malays sit just below parity (0.97). Second, Chinese Malaysians are the most over-represented group, at 1.27, and this over-representation is growing. Figure 1 shows their share of new citizen bankrupts rising from 25.5 per cent in 2021 to 31.3 per cent in 2025 and 31.0 per cent in the first half of 2026, while the Malay share fell from about 58 per cent to 52 to 53 per cent. Third, the 'Others' category, whose population base consists mainly of the other Bumiputera communities of Sabah and Sarawak, is markedly under-represented (0.60). The Indian share has fallen from 11.3 per cent in 2015–2019 to about 7.5 per cent, leaving the group modestly over-represented (1.15).

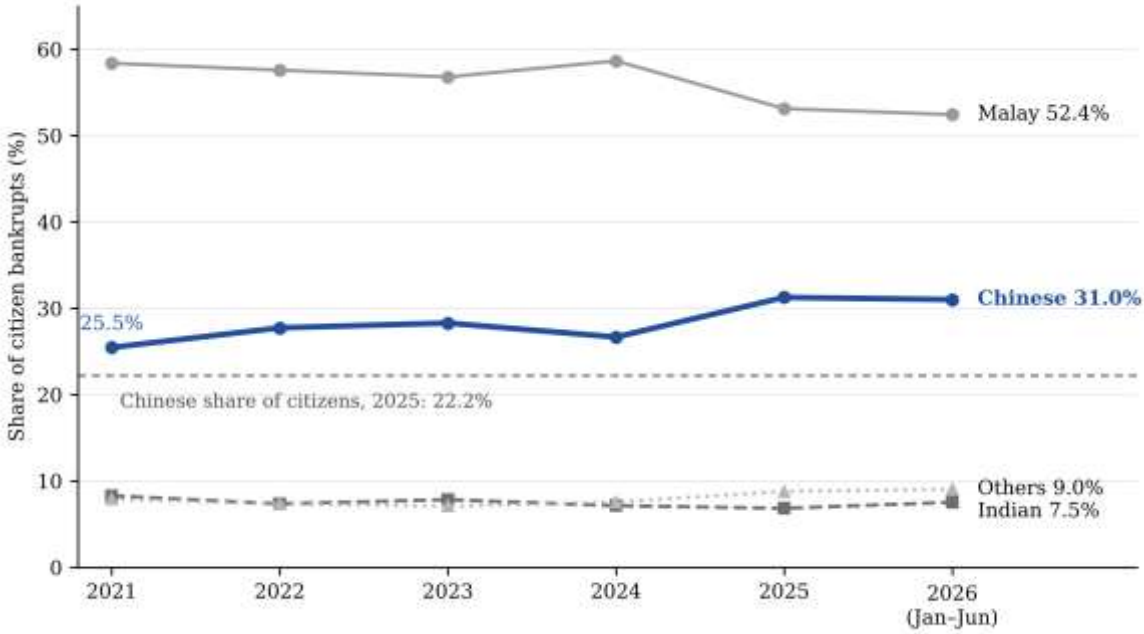


FIGURE 1. Ethnic composition of new citizen bankrupts, 2021 to June 2026.

Note: Source: MDI (2025, 2026); DOSM population share from Bernama (2025). 'Others' = MDI *Lain-lain*; non-citizens excluded.

5.2 Gender and Age

Bankruptcy in Malaysia is overwhelmingly male. Between 2022 and June 2026, men accounted for 19,208 cases (71.7 per cent) and women for 7,488 (28.0 per cent) (MDI 2026), against a population sex ratio of 110 men per 100 women (Bernama, 2025). The pattern is stable: from 2015 to 2019, men outnumbered women by more than two to one (Malay Mail, 2019).

Bankruptcy is also a mid-life event. Debtors aged 35 to 44 made up 39.8 per cent of cases between 2022 and June 2026, and those aged 45 to 54 a further 28.8 per cent. Debtors under 25 accounted for only 0.3 per cent, which challenges the public narrative of youth bankruptcy (MDI 2026).

Because bankruptcy is concentrated in mid-life, differences in ethnic age structure affect the crude representation ratios reported in Table 1. DOSM's 2025 estimates show that 32.7 per cent of Malay citizens are under 20, compared with 24.9 per cent of Chinese citizens, while 11.0 per cent of Chinese citizens are aged 65 and above, compared with 7.5 per cent of Malay citizens (DOSM 2025b). Two robustness checks address this (Appendix A). First, restricting the denominator to citizens aged 20 and above raises the Chinese share of the population at risk from 22.2 to 24.0 per cent and lowers the Malay share from 58.2 to 56.4 per cent. On this basis, the Chinese ratio moderates from 1.27 to 1.18 and the Malay ratio rises from 0.97 to 1.00; restricting the denominator further to citizens aged 25 to 64 gives the same ratios (Table A2). Second, an indirect age standardisation, which applies national age-specific bankruptcy rates for 2022 to June 2026 to each group's age

structure, yields standardised ratios of 1.18 for Chinese, 1.00 for Malay, 1.04 for Indian and 0.63 for 'Others' citizens; for 2025 to June 2026 alone, the Chinese ratio is 1.27 (Table A4). Age structure therefore accounts for about one-third of the Chinese excess. Demographic composition does not explain the remaining over-representation, roughly a fifth over the full period and more than a quarter in 2025–2026.

5.3 Causes and Occupations

Personal loans remain the single largest cause, at 44.8 per cent of cases between 2022 and June 2026. Business-related debt is the second pillar: business loans account for 19.3 per cent, and liability as a corporate guarantor accounts for a further 6.0 per cent, for a combined 25.3 per cent (MDI 2026). Housing loans (9.4 per cent), vehicle hire purchase (7.9 per cent), credit cards (2.4 per cent), income tax (2.1 per cent), and arrears of

employer contributions to the Employees Provident Fund (1.8 per cent) make up the rest.

Corporate-guarantor bankruptcies are the fastest-growing category. They rose from 159 cases (2.8 per cent) in 2022 to 561 (8.3 per cent) in 2025, then stood at 321 (9.1 per cent) in the first half of 2026 (MDI 2026). Their rise coincides with the upward shift in the Chinese share in 2025 and the first half of 2026, a parallel trend that is suggestive though not conclusive in the absence of cross-tabulated records. By contrast, bankruptcies of social guarantors have almost disappeared, at 22 cases in four and a half years, reflecting the 2017 prohibition.

By occupation, private-sector employees are the largest identified group (33.0 per cent), followed by business owners (19.3 per cent) and public servants (12.0 per cent); the self-employed add 4.1 per cent. Occupation is unrecorded in 29.9 per cent of cases (MDI 2026).

5.4 Who Files

Bankruptcy remains a creditor's remedy. Of 4,250 petitions filed between January and June 2026, only 68 (1.6 per cent) were debtors' own petitions (MDI 2026). The widely reported rise in self-declared bankruptcies, from 181 in 2023 to 330 in 2024 (Malay Mail, 2025), is real in percentage terms but small in absolute numbers. For most Malaysians of every community, bankruptcy is something done to them, not a relief they seek.

6. DISCUSSION

6.1 The Income Paradox

If bankruptcy tracked poverty, the lowest-income communities would be the most over-represented. The opposite is observed. The Chinese community has the highest median household income, yet the highest representation ratio. The 'Others' category, dominated by Sabah and Sarawak Bumiputera, includes many of the country's poorest districts, yet it is the most under-represented (DOSM 2023; Malay Mail, 2023).

A more plausible resolution lies in how the law filters debt. A bankruptcy petition requires a creditor, a debt of at least RM100,000 and, in practice, a creditor willing to spend money pursuing it. Bankruptcy is therefore better read as a record of failures of substantial formal credit than of financial hardship as such. Households whose distress consists of small arrears, informal loans or debts below the threshold rarely appear in MDI's tables, however severe their hardship. Raising the threshold to RM100,000 strengthened this filter, and the rise to RM150,000 proposed in Budget 2027 will strengthen it again. As a result, bankruptcy statistics are likely to reflect access to, and failure of, large formal credit more than hardship in general. Communities with thinner access to such credit, including rural Bumiputera in East Malaysia, may be under-represented largely for that reason rather than because they are financially secure, although MDI's aggregate data cannot confirm this directly.

The higher threshold is a welcome protection for households with moderate debts. Its likely side effect, however, is to make the bankrupt population still more concentrated among debtors with large business and guarantee liabilities. If the credit-structure account below is correct, the over-representation of Chinese

Malaysians may increase, not decline, after 2027. This is a testable prediction, and a reason to monitor the reform's effects by group.

6.2 Business Credit and the Guarantor Gap

A second filter is credit type. A quarter of bankruptcies arise from business loans or corporate guarantees, and corporate-guarantor cases have roughly tripled as a share since 2022. Lenders to small private companies commonly require directors to personally guarantee the company's facilities, so limited liability protects shareholders' investment but not directors' personal assets. When the company fails, the corporate veil does not protect the guarantor, and the Act requires only the court's leave before a creditor can petition against a non-social guarantor (s. 5(3)).

Official ownership data suggest which communities carry most of this exposure. Baseline figures prepared for the Eleventh Malaysia Plan showed that Bumiputera owned 37.4 per cent of small and medium enterprises (SMEs) in the Census of Establishments and Enterprises 2005, that 90.7 per cent of these Bumiputera SMEs were micro enterprises, and that Bumiputera owned only 27.6 per cent of the 1,026,100 companies registered with the Companies Commission of Malaysia in 2014 (EPU 2015). The most recent official ethnic breakdown, based on the Economic Census 2016 (reference year 2015), shows little change. Bumiputera-owned firms made up 38 per cent of Malaysian-owned SMEs, and 88 per cent of Bumiputera micro, small and medium enterprises (MSMEs) were micro enterprises, compared with 69 per cent of non-Bumiputera MSMEs; conversely, 31 per cent of non-Bumiputera firms were small or medium-sized, against 12 per cent of Bumiputera firms (Teraju 2017, as reported in Lee 2021). Small and medium-sized firms are the ones most likely to borrow above the bankruptcy threshold and on terms that require directors' personal guarantees. Non-Bumiputera owners, among whom Chinese Malaysians form the large majority, thus held about three-fifths of Malaysian-owned SMEs, a larger share of the bigger ones, and over 70 per cent of registered companies in 2014, while forming under 30 per cent of citizens. This pattern is consistent with the long concentration of Chinese Malaysians in owner-managed private business (Gomez, 1999). Comparable ethnic breakdowns from the Economic Census 2023 have not been published in DOSM's headline releases, so these remain the latest official figures. They are not broken down by individual non-Bumiputera group or by legal form, and they therefore support rather than prove the hypothesis. Nonetheless, they are consistent with business credit acting as a primary channel for the community's over-representation, and the rise in the Chinese share in 2025–2026 coincides with the surge in corporate-guarantor bankruptcies over the same period.

The legal framework sharpens this effect. The 2017 Act gave absolute protection to social guarantors, those who guarantee education, vehicle and home loans for no profit, and these cases have nearly vanished. Business guarantors received only the requirement of court leave. The policy distinction is defensible: a commercial guarantor takes a commercial risk. Its distributive effect, however, is uneven. Protection concentrates on the forms of guarantee common in household and family borrowing, while forms common in small-business finance remain exposed. The law refers to no ethnicity, but a community whose economic life is organised more extensively around incorporated family enterprise is likely to bear a larger share of the residual risk.

Because MDI does not publish ethnicity-by-cause cross-tabulations, this ecological inference must remain a hypothesis to be tested rather than an established causal fact. Age structure accounts for only about one-third of the Chinese excess (section 5.2). Beyond that, the convergence of the evidence—the income paradox, the share of business-linked causes, and the parallel rise of corporate-guarantor filings—suggests that credit structure provides a more persuasive account than any appeal to cultural attitudes towards debt.

6.3 Neutral Gatekeepers

Braucher et al. (2012) showed that neutral bankruptcy law can be sorted by its gatekeepers. In the United States, debtors' lawyers serve as those gatekeepers. In Malaysia, they are creditors. Creditors present over 98 per cent of petitions (MDI 2026), so the composition of the bankrupt population reflects lending decisions, collection strategies, and banks' willingness to pursue guarantors. In this sense, ethnic patterns among bankrupts partly record how communities have extended and enforced credit. That makes the absence of ethnicity-by-creditor and ethnicity-by-cause data more than a technical gap.

6.4 Gender

The same credit-structure account may also help explain the gender pattern. Men make up about 72 per cent of bankrupts, and business-related debt accounts for a quarter of cases. Women-owned firms accounted for only 20.6 per cent of SMEs in the Economic Census 2016 (SME Corp, n.d.). The Economic Census 2023 shows little change: women owned 219,015 establishments in 2022, or 20.1 per cent of all establishments; 185,582 of these were SMEs, about 17 per cent of all SMEs, and 93.6 per cent operated in services, mainly wholesale and retail trade (DOSM 2025a; The Edge 2025). This persistent gender gap in business ownership is consistent with men's predominance among the owner-managers and director-guarantors exposed to business-linked petitions. Men also more often serve as the principal borrowers on household credit. However, women's financial vulnerability takes forms the bankruptcy data do not show, such as debts incurred through spouses or as informal guarantors. In February 2026, the government launched a fast-track discharge programme that prioritises single parents, micro-entrepreneur borrowers, victims of financial scams, and buyers affected by ab-

andoned housing projects (The Vibes 2026a). It recognises that some groups need targeted relief. Budget 2027 extends the same logic to primary caregivers of disabled, chronically ill or elderly family members, and to gig workers and others with irregular incomes (The Vibes 2026b). Because caregiving falls disproportionately on women, these measures are not neutral in their reach. They show that the state already accepts group-specific measures where need is evident, within a nominally group-blind law.

6.5 Religion, Stigma and Legal Pluralism

The Malay near-parity should not be read as evidence that Malay debtors fare well. Muslim debtors face a distinctive moral burden because repaying debt is both a religious and a legal duty (Abdullah et al., 2023; Kilborn, 2025). Stigma may delay a Muslim debtor's search for help and may make civil discharge, which releases the legal obligation, feel insufficient to the debtor.

At the same time, Islamic tradition offers relief that civil law does not. Debtors in genuine hardship (*al-gharimin*) are one of the eight categories entitled to zakat under the Qur'an (*al-Tawbah* 9:60), and Abdullah et al. (2023) argue that zakat, sadaqah and waqf can be applied to keep Muslim debtors out of bankruptcy. Malaysia's state religious councils already distribute zakat, but they lack a structured link to MDI and the Credit Counselling and Debt Management Agency (AKPK). Non-Muslim communities rely on their own informal safety nets, such as family support and community associations, which are similarly invisible to the law. A plural society thus has several systems of debt relief, of which the civil Act is only one. The second-chance policy speaks only through that one.

Any formal link between these systems must respect Malaysia's constitutional settlement. Bankruptcy and insolvency are federal matters (Ninth Schedule, List I, item 4(e)(i)). In contrast, zakat, fitrah and Baitulmal fall under the State List (List II, item 1) and are administered by state religious authorities. Shariah courts have no jurisdiction over civil bankruptcy, and the civil courts may not intrude on matters within Shariah jurisdiction (art. 121(1A)). A link between MDI, AKPK, and zakat authorities can therefore be only an administrative referral, not a merger of jurisdictions: civil law alone determines the debtor's legal status, while zakat bodies serve as external sources of settlement funds.

Such a referral must also satisfy Article 8, which guarantees equality before the law and prohibits discrimination on the ground of religion or race alone. Article 8 permits classification based on an intelligible differentia that has a rational relation to the object of the law (*Public Prosecutor v Datuk Haji Harun bin Haji Idris* [1976] 2 MLJ 116). Referral to zakat does not give Muslim debtors a different civil status or a public subsidy: zakat is a religious levy paid by Muslims and distributed to defined categories of recipients. The risk lies elsewhere. If only Muslim debtors enjoyed an institutional route to pre-bankruptcy relief, the civil gateway would in practice be unequal. Parity requires MDI and AKPK to act as neutral clearinghouses, signposting every debtor to the relief available to them, and requires comparable non-religious channels for all.

6.6 What 'Neutral' Costs

The 2023 reform discharged debtors on a large scale: 179,146 certificate discharges between 2022 and June 2026 (MDI 2026). Its criteria are time in bankruptcy, age, mental capacity and ability to pay. These criteria are neutral, but the population they apply to is not. Debtors whose bankruptcies arise from consumer credit, who are older or who have been bankrupt longest benefit most; recent, younger business guarantors benefit least. Because MDI does not publish discharges by ethnicity, gender, or cause, Malaysia's largest act of debt relief cannot be assessed for its distributive effect. Neutral rules in a plural society are not the same as equal outcomes, and without disaggregated data the state cannot know which it has achieved.

7. RECOMMENDATIONS

The findings do not call for ethnic criteria in insolvency law, which would be neither lawful nor wise. They call for a neutral law that can see the population it serves. Five reforms follow.

Disaggregated reporting. MDI already records ethnicity, gender, age, cause and occupation. It should publish cross-tabulations of these variables, for new cases and for discharges, in its annual statistics. Data on discharges by certificate and automatic discharge would allow the distributive effect of the second-chance policy to be evaluated. The move to a RM150,000 threshold in 2027 offers a natural before-and-after comparison, and MDI should publish its effect on filings by group. Anonymised data could be made available to researchers under appropriate safeguards, in line with the IMF's call for systematic data collection on personal insolvency (Garrido, Kilborn & Rosha 2025).

Attention to business guarantors. The growth of corporate-guarantor bankruptcies warrants a review of how directors of small private companies are treated. Options include requiring creditors to exhaust remedies against the company before pursuing a director-guarantor, ensuring proportionality in enforcing guarantors of government-backed facilities, and providing early access to voluntary arrangements for owner-managers whose companies enter rescue.

A gateway below the threshold. Because bankruptcy filters out households with debts below RM100,000, and from 2027 below RM150,000, their distress is handled informally or not at all. Each rise in the threshold enlarges this group and makes a gateway below it more urgent. A low-cost statutory debt relief procedure—modelled on the Debt Relief Order regime in England and Wales, which was inserted as Part 7A of the United Kingdom's Insolvency Act 1986 by the UK Tribunals, Courts and Enforcement Act 2007—would bring these debtors into a formal system with attached counselling. AKPK, which already provides debt counselling and management under Bank Negara Malaysia's oversight, is well placed to serve as the gateway. This would reach communities, including East Malaysian Bumiputera, that bankruptcy statistics now render invisible.

Culturally competent counselling. Pre-filing and post-discharge counselling should be available in each community's main languages and address the different meanings debt carries. For Muslim debtors, counsellors should explain the relationship between civil discharge and religious obligation and refer eligible debtors to zakat assistance.

Linking Islamic relief to the civil system. State zakat authorities, AKPK and MDI should agree on administrative referral protocols so that debtors who qualify as *al-gharimin* can be assisted before bankruptcy, or helped to settle with creditors during it. To respect the federal–state division and Article 8, the protocols should not alter any debtor's civil status, and AKPK should also build equivalent routes for non-Muslim debtors through welfare assistance, bank hardship funds, and charitable trusts. A statutory gateway below the threshold, open to every qualifying debtor, would remain the principal equaliser. Such links would treat legal pluralism as a resource for rehabilitation rather than a parallel world the civil law ignores.

8. CONCLUSION

Malaysia's insolvency law is neutral in its words but not in its effects. Official data from 2015 to June 2026 show that Malays are represented among bankrupts roughly in proportion to their population; Chinese

Malaysians are over-represented by more than a quarter on a crude basis (and by nearly a fifth after adjusting for age structure), and increasingly so; Indians are modestly over-represented; and the other Bumiputera communities of Sabah and Sarawak are markedly under-represented. Bankrupts are predominantly mid-life men, and nearly all are made bankrupt by their creditors.

These patterns do not fit a story in which the poorest communities go bankrupt most. They are more consistent with a story in which bankruptcy records the failure of substantial formal credit, filtered by a high threshold, by the type of borrowing and by the scope of guarantor protection. The rise of corporate-guarantor bankruptcies coincides with the growing Chinese share of filings, suggesting that small-business credit and personal guarantees warrant closer empirical scrutiny as a primary channel. These conclusions are hypotheses because the data needed to test them directly have been collected but not published.

The second-chance policy has relieved debt on an unprecedented scale, and Budget 2027 extends it while raising the threshold to RM150,000. Its criteria treat debtors as a single population, and in a plural society that choice has distributive consequences that no one is currently measuring. Future research should obtain cross-tabulated MDI data, compare ethnic patterns in bankruptcy with those in AKPK's debt management programmes, and examine through interviews how debtors in different communities experience bankruptcy, st-

igma and discharge. A rehabilitative law for a plural society needs to know whom it rehabilitates.

APPENDIX A: COMPUTATION OF ETHNIC REPRESENTATION RATIOS

This methodological appendix explains how the crude, age-restricted and age-standardised representation ratios reported in the text were computed so that other researchers can replicate or extend the analysis as future Malaysian Department of Insolvency (MDI) and Department of Statistics Malaysia (DOSM) releases become available.

A.1 Category Harmonisation and Exclusion of Non-Citizens

MDI publishes monthly and annual counts of newly registered bankruptcy cases under five *bangsa* categories: *Melayu* (Malay), *Cina* (Chinese), *India* (Indian), *Lain-lain* (Others), and *Bukan Warganegara* (Non-citizens). Because DOSM ethnic population shares are reported as percentages of the Malaysian citizen population, non-citizen bankruptcies (N non-cit = 157 between January 2021 and June 2026) are subtracted from total new registrations (N total = 33,336) to obtain the citizen bankruptcy denominator (N cit = 33,179).

DOSM classifies citizens into five groups: Malay (58.2%), Other Bumiputera (12.3%), Chinese (22.2%), Indian (6.5%), and Others (0.8%) (Bernama 2025; DOSM 2026). Because MDI does not disaggregate the indigenous Bumiputera communities of Sabah, Sarawak, and Peninsular Malaysia from other minor citizen groups, MDI's *Lain-lain* category is matched against the sum of DOSM's *Other Bumiputera* and *Others* categories (12.3% + 0.8% = 13.1%).

A.2 Crude Representation Ratio (RR_i)

For each ethnic category $i \in$ {Malay, Chinese, Indian, Others}, let B_i denote the number of newly registered citizen bankrupts in group i during the observation period, and let $b_i = B_i / N$ cit denote group i's percentage share of citizen bankrupts. Let $p_i = P_i / P$ cit denote group i's percentage share of the total citizen population. The crude representation ratio is computed as:

$$RR_i = b_i / p_i = (B_i / N \text{ cit}) / (P_i / P \text{ cit})$$

A value of $RR_i = 1.00$ indicates representation strictly proportional to total citizen population share; $RR_i > 1.00$ indicates over-representation; and $RR_i < 1.00$ indicates under-representation.

A.3 Age-Restricted Representation Ratio (ARR_i,A)

Because personal bankruptcy is confined almost entirely to adults (99.7 per cent of cases with a recorded age in 2022–June 2026 involved debtors aged 25 and above, and 68.6 per cent of all cases involved debtors aged 35 to 54), crude ratios using all-ages denominators can be confounded by inter-ethnic differences in fertility and longevity. The first robustness check restricts the population denominator to an adult age bracket A, defined either as all citizens aged 20 and above or as citizens aged 25 to 64. Population counts are DOSM's 2025 estimates of the citizen population by five-year age group and ethnic group (DOSM 2025b), aggregated in Table A1 to the age bands MDI uses. Let P_i,A denote the citizen population of group i within bracket A, and let p_i,A denote group i's share of the citizen population in that bracket:

$$p_i,A = P_i,A \,/\, \sum P_j,A$$

The age-restricted representation ratio is then computed as:

$$ARR_i,A = b_i \,/\, p_i,A$$

TABLE A1. Citizen population by MDI age band and ethnic group, 2025 (thousands)

Age band	Malay	Chinese	Indian	Others	All citizens
0–19	5,874.40	1,702.20	536.3	1,282.50	9,395.40
20–24	1,644.50	512.4	165.2	359.7	2,681.80
25–34	2,868.00	967.9	315.4	698	4,849.30
35–44	2,818.80	1,099.20	338.5	635.4	4,891.90
45–54	1,955.80	988.9	266.9	427.3	3,638.90
55–64	1,447.50	821.5	204.1	321.5	2,794.60
65+	1,356.00	754.6	179.6	298.9	2,589.10
Total	17,965.0	6,846.70	2,006.00	4,023.30	#######

Note: Source: DOSM (2025b), population estimates by age group, sex and ethnicity, 2025, both sexes, citizens only. 'Others' combines Other Bumiputera and other citizens, matching MDI's *Lain-lain*. Figures are summed from five-year age groups and may differ from published totals by rounding.

TABLE A2. Crude and age-restricted ethnic representation ratios, 2021 to June 2026

Group	b_i (%)	p_i (%)	RR_i	p_i,20+ (%)	ARR_i,20+	p_i,25–64 (%)	ARR_i,25–64
Malay	56.4	58.2	0.97	56.4	1	56.2	1
Chinese	28.2	22.2	1.27	24	1.18	24	1.18
Indian	7.5	6.5	1.15	6.9	1.09	7	1.08
Others	7.9	13.1	0.6	12.8	0.62	12.9	0.61
Total	100	100	–	100	–	100	–

Note: b_i and p_i are taken from Table 1; p_i is DOSM's published citizen share (Bernama 2025; DOSM 2026). Age-bracket shares are computed from Table A1. For 2025 to June 2026, when the Chinese share of citizen bankrupts was 31.2 per cent, ARRChinese,25–64 = 31.2 / 24.0 = 1.30.

A.4 Indirectly Age-Standardised Ratio (SR_i)

The age-restricted ratio removes children, and in its 25–64 version the elderly, from the denominator, but it treats every adult as equally at risk. The second check uses indirect standardisation, which also weights each age band by how often its members become bankrupt. MDI publishes the age distribution of new bankrupts for 2022 to June 2026 but does not cross-tabulate it by ethnicity (MDI 2026). The national age-specific rate for each MDI age band a is therefore computed as $r_a = C_a / P_a$, where C_a is the number of bankrupts in band a and P_a is the citizen population in that band (Table A3). The expected number of bankrupts in group i is:

$E_i = \Sigma_a \, r_a \times P_{i,a}$

and its expected share is $e_i = E_i / \Sigma_j \, E_j$. The indirectly age-standardised ratio is:

$SR_i = b_i / e_i$

where b_i is the group's observed share of citizen bankrupts over the same period. Because both shares sum to 100 per cent, SR_i equals the ratio of observed to expected cases once expected cases are scaled to the observed total. A value above 1.00 means that a group has more bankrupts than its age structure alone would predict.

Two simplifications should be noted. MDI's age table includes non-citizen bankrupts (0.5 per cent of cases) and 173 cases (0.6 per cent) with no recorded age, which are excluded from the rates; both are small relative to the differences reported. The 2025 population estimates are applied to the whole of 2022 to June 2026, on the assumption that ethnic age structures change only slowly. The rates in Table A3 are annualised over the four and a half years of the period; annualisation does not affect SR_i.

TABLE A3. National age-specific bankruptcy rates, 2022 to June 2026

MDI age band	New bankrupts, 2022–Jun 2026	Citizen population, 2025 ('000)	Annual rate per 100,000 citizens
20–24	74	2,681.80	0.6
25–34	3,802	4,849.30	17.4
35–44	10,655	4,891.90	48.4
45–54	7,723	3,638.90	47.2
55+	4,355	5,383.70	18
Total, age recorded	26,609	21,445.60	27.6

Note: New bankrupts by age from MDI (2026), Table 6(A); population from Table A1 (the 55+ band combines 55–64 and 65+). Rates are annual averages over 4.5 years.

TABLE A4. Observed and age-expected shares of citizen bankrupts and indirectly age-standardised ratios

Group	Observed citizen bankrupts, 2022–Jun 2026	Observed share b_i (%)	Expected share e_i (%)	SR_i, 2022–Jun 2026	Observed share, 2025–Jun 2026 (%)	SR_i, 2025–Jun 2026
Malay	14,884	55.9	55.8	1	52.9	0.95
Chinese	7,704	28.9	24.6	1.18	31.2	1.27
Indian	1,940	7.3	7	1.04	7.1	1.01
Others	2,114	7.9	12.6	0.63	8.9	0.71
Total	26,642	100	100	–	100.0 (n = 10,253)	–

Note: Observed counts from MDI (2026), Table 7(C), excluding 140 non-citizens. Expected shares are computed from Tables A1 and A3. The 2025–June 2026 ratios use the same expected shares. Shares for 2022–June 2026 differ slightly from Table 1, which covers 2021–June 2026.

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