Bankruptcy And Household Financial Vulnerability in Malaysia: An Analysis of Behaviour and Recovery Strategies

Nurfahiratul Azlina Ahmad[1], Emie Sylviana Mohd Zahid[2], Gul Ghutai[3], M. Z. Mohd Zin[4], Zarina Kassim[5], Nurul Farhanah Mohamad Rosli[6]

[1,2]Senior Lecturer, Academy of Contemporary Islamic Studies (ACIS), Universiti Teknologi MARA, Permatang Pauh Campus, 13500 Pulau Pinang, MALAYSIA

[3] Assistant Professor, Commerce Department, Sardar Bahadur Khan Women's University, Brewery Road, Quetta, PAKISTAN

[4] Senior Lecturer, Academy of Contemporary Islamic Studies (ACIS), Universiti Teknologi MARA, Melaka Campus, MALAYSIA

[5] Senior Lecturer, Department of Logistic Management and Business Administration, Faculty of Defence Studies and Management, National Defence University of Malaysia, MALAYSIA

[6]Senior Executive (Collection Department), AEON Credit Raja Uda, 3541 Jalan Raja Uda, Kampung Baharu, 12300 Butterworth, Pulau Pinang, MALAYSIA

[*]Corresponding Author

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ABSTRACT

This article analyses individual bankruptcy and household financial vulnerability in Malaysia within an increasingly digitalised financial landscape, focusing on the interaction between debt-commitment structures and consumer financial behaviour. Drawing on the complementary perspectives of the Life-Cycle Hypothesis (LCH) and Behavioural Finance Theory, the study examines how the increasing accessibility of digital credit instruments such as Buy Now, Pay Later (BNPL) may interact with behavioural biases and household financial pressures, particularly under cost-of-living and income shocks. Using a qualitative approach based on directed document analysis and narrative synthesis, the study synthesises 34 official and institutional documents, peer-reviewed studies, and selected industry reports, with priority given to recent evidence from 2023–2026. The findings show that although bankruptcy cases declined between 2021 and 2023, they increased to 5,977 cases in 2024 and 6,776 cases in 2025. Individuals aged 35–44 constituted the largest share of cases during 2021–2025, while personal loans remained the leading cause of bankruptcy. Interim data up to March 2026 indicate that insolvency pressures persisted, although these partial-year figures are not extrapolated to represent full-year outcomes. The synthesis further suggests that financial vulnerability is shaped not by debt alone but by the interaction of financial literacy, financial behaviour, self-control, digital-credit usage, debt-service burden, emergency savings, and structural economic pressures. The study therefore proposes an analytical framework linking behavioural factors, digital-credit usage, debt commitments, financial buffers, and economic shocks to financial vulnerability and potential bankruptcy risk. The implementation of the Consumer Credit Act 2025 and the establishment of the Suruhanjaya Kredit Pengguna (SKP) in 2026 represent important institutional developments for strengthening responsible credit practices and consumer protection. The article concludes that reducing bankruptcy risk requires an integrated approach combining financial capability, responsible credit provision, early detection of financial stress, appropriate oversight of digital credit, and effective recovery mechanisms to strengthen sustainable household financial well-being.

Keywords: Bankruptcy; Financial Vulnerability; Financial Literacy; Financial Behaviour; Buy Now Pay Later (BNPL); Consumer Credit Act 2025; Malaysia

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INTRODUCTION

Individual bankruptcy represents the most serious manifestation of financial distress, occurring when a person is no longer able to meet debt obligations and becomes subject to insolvency proceedings. Formal bankruptcy, however, is only the endpoint of a continuum of vulnerability that typically begins much earlier through negative cash flow, inadequate emergency savings, repeated use of credit, and difficulty maintaining debt repayments. Bankruptcy should therefore be analysed together with financial well-being and financial resilience rather than assessed solely on the basis of the amount of debt (Brüggen et al., 2017; Lusardi & Messy, 2023; Lusardi & Streeter, 2023).

In Malaysia, official statistics show that 6,776 new bankruptcy cases were registered in 2025, compared with 5,977 cases in 2024. Although this figure remains lower than in several earlier periods, two consecutive years of increases after 2023 indicate that some households continue to face significant repayment pressure (Jabatan Insolvensi Malaysia [MdI], 2026a). Data reported in April 2026 show a total of 31,517 bankruptcy cases for the period from 2021 to March 2026; 14,582 cases, or approximately 46%, were associated with personal loans. The 2026 figure is partial-year data and is therefore not compared directly with full-year totals.

The 2026 landscape adds a new dimension to this issue. The Consumer Credit Act 2025 (Act 873) came into force on 1 March 2026, while Part V relating to licensing and registration took effect on 1 June 2026. This framework expands consumer credit protection and provides a more consistent regulatory foundation for consumer credit activities, including segments such as Buy Now, Pay Later (BNPL) (Suruhanjaya Kredit Pengguna [SKP], 2026a, 2026b). In Phase I, six major activities, including BNPL, factoring, leasing, debt collection, acquisition of impaired loans or financing, and debt counselling and management, fall within the SKP regulatory framework.

Recent Malaysian studies also show that financial behaviour plays an important role in determining financial well-being. Sabri et al. (2024) found that financial behaviour is an important mechanism linking several personal factors to the financial well-being of young adults. Mahdzan et al. (2026) further demonstrate that digital financial behaviour has an important relationship with financial well-being among Malaysian Generation X and Millennials. These findings support the need to examine bankruptcy risk through a combination of structural and behavioural factors.

Globally, the democratisation of credit through digitalisation and the emergence of facilities such as Buy Now, Pay Later (BNPL) have generated renewed debate over the balance between financial inclusion and the risk of over-indebtedness. Countries across the region face similar challenges in regulating easily accessible credit instruments that are frequently marketed to younger and financially vulnerable consumers. Although a substantial body of Malaysian research has examined bankruptcy, much of the existing literature remains centred on traditional debt patterns and gives limited attention to post-pandemic structural shifts and the new regulatory landscape introduced by the Consumer Credit Act 2025. This study addresses this gap by synthesising recent developments in digital financial markets with evidence on behavioural vulnerabilities in financial decision-making.

This article aims to (i) describe the latest trends in individual bankruptcy in Malaysia; (ii) analyse factors that increase household financial vulnerability; (iii) assess developments in consumer credit and financial resilience up to 2026; and (iv) propose prevention and recovery strategies that are relevant to Malaysia's changing credit landscape.

LITERATURE REVIEW

Bankruptcy, Financial Vulnerability and Financial Well-Being

Financial well-being encompasses an individual's ability to meet current commitments, withstand economic shocks, achieve financial goals, and enjoy the freedom to make choices that support quality of life (Brüggen et al., 2017; CFPB, 2017). In Malaysia's current macroeconomic context, financial well-being is frequently overshadowed by financial vulnerability. Financial vulnerability refers not only to difficulties in maintaining current living standards but also to the risk of being unable to cope with financial difficulties in the future (Sabri & Magli, 2025). By the end of 2023, Malaysian household debt remained at a high level, indicating that households' ability to manage debt commitments, savings, and living costs continues to be important in assessing financial resilience.

Financial vulnerability also affects younger people. Recent data show that of the 31,517 bankruptcy cases recorded in Malaysia from 2021 to March 2026, 4,704 cases, or approximately 15%, involved individuals aged 34 and below. Over the same period, 14,582 cases, or approximately 46% of all bankruptcies, were associated with personal loans (Bernama, 2026). This pattern suggests that some young people face pressure from financial commitments at an early stage of the life cycle, when income capacity, savings, and debt-management capability may not yet be sufficiently strong.

Financial literacy provides an important foundation for informed financial decision-making (Lusardi & Mitchell, 2014), although financial knowledge alone is not necessarily sufficient to ensure financial well-being (Lusardi & Streeter, 2023). Sabri and Magli (2025) show that psychological factors and locus of control have an important relationship with the financial well-being of low-income households, while Hamid et al. (2023) find that financial knowledge, financial inclusion, and several sociodemographic characteristics are associated with financial resilience in the Malaysian context. These findings are consistent with the multidimensional perspective of financial resilience, which emphasises the capacity to access and mobilise financial resources and support in responding to financial adversity (Salignac et al., 2019). Financial resilience should therefore be understood as the outcome of interactions among knowledge, behaviour, the ability to manage financial resources, and the capacity to withstand economic shocks.

Therefore, efforts to reduce financial vulnerability should not focus solely on improving financial literacy. Interventions should also emphasise responsible financial behaviour, self-control, financial planning, emergency savings, and prudent management of debt commitments. This more comprehensive approach is important for reducing the risk that financial stress progresses from vulnerability to repayment failure and ultimately bankruptcy.

Household Debt and Cost-of-Living Pressures

Debt can support asset formation and intertemporal consumption, particularly through housing and education financing. Risk arises when debt commitments are no longer aligned with disposable income or when households lack adequate buffers. Economic Outlook 2026 shows that outstanding household-sector loans in 2025 amounted to RM1.3815 trillion, with residential property purchases accounting for 62.6%, passenger vehicles 15.0%, personal use 8.6%, and credit cards 3.4%. This structure underscores the importance of assessing affordability and debt quality rather than aggregate debt alone (Kementerian Kewangan Malaysia [MOF], 2025).

Cost-of-living pressures can reduce households' capacity to save and encourage the use of credit for current expenditure. RinggitPlus (2025) reports increasingly evident pressure among middle-income groups, while Sun Life Malaysia (2026) reports that a large proportion of respondents felt that inflation made it more difficult to meet monthly expenses. Such indicators suggest that perceptions of financial security remain fragile among some consumers.

Digital Credit, BNPL and Behavioural Vulnerability

The rapid expansion of digital credit instruments such as Buy Now, Pay Later (BNPL) has changed how consumers make purchasing decisions and manage short-term financial commitments. BNPL allows payments to be deferred or divided into instalments, thereby providing consumers with greater cash-flow flexibility. However, its accessibility, rapid transaction process, and simplified payment structure may also encourage consumers to underestimate cumulative repayment obligations, particularly when several credit facilities are used simultaneously (Abdul Halim et al., 2024; Guttman-Kenney et al., 2023; Cervellati et al., 2026).

Evidence suggests that the financial implications of BNPL depend not only on access to credit but also on consumer behaviour and financial capability. Malaysian studies indicate that limited financial understanding,

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weak self-control, behavioural biases, and impulsive purchasing may increase the risk of excessive financial commitments (Harun & Ab. Aziz, 2025; Alias et al., 2025). Financial literacy, financial behaviour, and financial inclusion have also been identified as important factors in understanding the financial well-being of young BNPL users (Mustapa, S. N. S., et al., 2025).

Similarly, Mustapa, Z., et al. (2025) identify several factors influencing the intention to use BNPL services among Millennials and Generation Z consumers in Malaysia, further demonstrating that digital-credit adoption is shaped by behavioural and consumer-related considerations.

The behavioural dimension is particularly important. Schomburgk and Hoffmann (2023) demonstrate that financial self-control and impulsive buying tendencies are associated with BNPL usage and broader financial well-being. Guttman-Kenney et al. (2023) further show that BNPL usage is associated with other forms of credit and is more pronounced among younger consumers and individuals living in socioeconomically vulnerable areas. In Malaysia, Osman et al. (2024) identify materialism, money-management skills, self-efficacy, attitudes, subjective norms, and perceived behavioural control as factors associated with BNPL usage among Generation Z. These findings support the interpretation of digital-credit vulnerability through a behavioural-finance perspective rather than solely through objective borrowing capacity.

Importantly, the relationship between BNPL usage and financial well-being may not be direct. Gafoor (2026) shows that materialism and financial behaviour can operate as mediating mechanisms between BNPL adoption and the financial well-being of emerging adults. This suggests that digital credit does not automatically lead to financial distress; rather, vulnerability may emerge when easy access to credit interacts with weak self-regulation, consumption orientation, inadequate financial capability, and existing financial commitments.

From a policy perspective, the Consumer Credit Act 2025 represents an important response to the changing credit landscape. The Act provides a regulatory framework for conventional and Shariah-compliant consumer-credit businesses and seeks to strengthen consumer protection and responsible credit practices. Its implementation in 2026 places greater emphasis on transparency, affordability, responsible conduct, and consumer protection in credit activities, including BNPL (SKP, 2026a, 2026b).

Overall, BNPL should therefore be assessed as part of a broader pathway of household financial vulnerability rather than as an isolated cause of bankruptcy. When combined with weak financial behaviour, limited self-control, multiple credit commitments, inadequate emergency savings, and cost-of-living pressures, repeated digital-credit usage may contribute to increasing debt-service burdens and reduced capacity to absorb financial shocks. Conversely, adequate financial capability, disciplined financial behaviour, and effective affordability assessment may mitigate these risks. This interpretation provides the behavioural foundation for the analytical framework developed in the following sections.

THEORETICAL FRAMEWORK

The analysis in this study is grounded in the complementary perspectives of the Life-Cycle Hypothesis (LCH) and Behavioural Finance Theory. The LCH explains how individuals allocate consumption, saving, and borrowing across different stages of life. Individuals may borrow during earlier stages of the life cycle when income and accumulated assets are relatively limited, before increasing savings and reducing debt as income becomes more stable. From this perspective, debt is not inherently problematic; financial vulnerability arises when repayment commitments become misaligned with disposable income, savings capacity, and the household's ability to absorb unexpected economic shocks.

The Malaysian bankruptcy pattern illustrates the importance of considering these life-cycle dynamics together with contemporary structural pressures. Individuals and households may face high fixed commitments during periods associated with housing, transportation, family responsibilities, and other essential expenditure. Cost-of-living increases, income disruptions, inadequate emergency savings, or excessive debt-service obligations can weaken the assumptions of smooth consumption and income progression underlying the LCH. Consequently, households that appear financially stable under normal circumstances may become vulnerable when their financial buffers are insufficient to absorb shocks.

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Behavioural Finance Theory complements the LCH by recognising that financial decisions are not always fully rational. Present bias, impulsive consumption, mental accounting, limited self-control, and other behavioural tendencies can influence borrowing and spending decisions. The rapid expansion of digital credit and BNPL may amplify these behavioural tendencies by reducing the immediate psychological salience of payment and separating consumption from the full perception of its cumulative financial cost. Financial literacy may improve consumers' understanding of financial products, but knowledge alone may not ensure prudent financial decisions when behavioural biases and weak self-control affect actual financial practices.

Integrating the two theoretical perspectives therefore provides a more comprehensive explanation of household financial vulnerability. The LCH highlights structural and life-cycle conditions affecting income, expenditure, saving, and borrowing capacity, while Behavioural Finance Theory explains how individual decision-making may intensify or mitigate these pressures. Financial vulnerability is consequently conceptualised not as the outcome of a single factor, but as a dynamic process arising from interactions among financial capability, financial behaviour, self-control, digital-credit usage, debt commitments, financial buffers, and external economic shocks.

Based on this theoretical integration, the present study proposes an analytical pathway in which financial literacy influences financial outcomes primarily through financial behaviour and self-control. These behavioural factors shape the use and management of digital credit, including BNPL, which may contribute to cumulative debt-service burdens when credit commitments are not adequately controlled. High debt-service burdens, particularly when combined with cost-of-living or income shocks and inadequate emergency savings, increase household financial vulnerability. Persistent vulnerability and repayment failure may subsequently increase the risk of formal bankruptcy. This proposed pathway provides the basis for the analytical framework presented in the following section.

Proposed Analytical Framework

Drawing on the Life-Cycle Hypothesis, Behavioural Finance Theory, and the evidence synthesised in this study, an analytical framework is proposed to explain the progression from financial decision-making to household financial vulnerability and potential bankruptcy. The framework distinguishes between behavioural factors, credit-related mechanisms, structural pressures, financial buffers, and financial outcomes rather than treating bankruptcy as the direct consequence of indebtedness alone.

At the behavioural level, financial literacy provides individuals with the knowledge and capability required to understand financial products, repayment obligations, and financial risks. However, its protective effect depends substantially on whether knowledge is translated into responsible financial behaviour and effective self-control. Financial behaviour and self-control therefore represent important mechanisms through which financial capability affects borrowing, spending, saving, and credit-management decisions.

Digital-credit usage, particularly BNPL, represents an additional mechanism within this pathway. BNPL does not inherently cause financial distress; however, repeated or poorly managed usage may increase cumulative financial commitments, especially when consumers simultaneously maintain other forms of credit. When these commitments become large relative to disposable income, the household's debt-service burden increases and its capacity to maintain routine expenditure and savings may decline.

Structural pressures can further intensify this process. Cost-of-living increases, employment or income shocks, and other unexpected financial disruptions may reduce disposable income and repayment capacity. At the same time, emergency savings function as an important financial buffer. Households with adequate emergency savings may be better able to absorb temporary shocks without resorting to additional borrowing or falling into arrears, whereas households with limited savings are more exposed to a rapid deterioration in financial resilience.

Financial vulnerability therefore emerges from the interaction between behavioural weaknesses and structural financial pressures. Persistent repayment difficulties, inadequate financial buffers, high debt-service burdens, and repeated exposure to economic shocks may progressively move households from manageable indebtedness to financial vulnerability and, in severe cases, formal bankruptcy. The framework thus conceptualises bankruptcy

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as the endpoint of a cumulative process rather than an immediate consequence of any single financial product or behaviour.

The structural pressures represented in the framework are expected to intensify the transition from debt-service burden to financial vulnerability, whereas emergency savings may reduce households' exposure to this transition. Importantly, the framework is analytical rather than causal because the present study is based on qualitative secondary evidence. Its proposed relationships therefore represent theoretically and empirically informed pathways that should be tested in future research using primary surveys, interviews, longitudinal data, or econometric modelling.

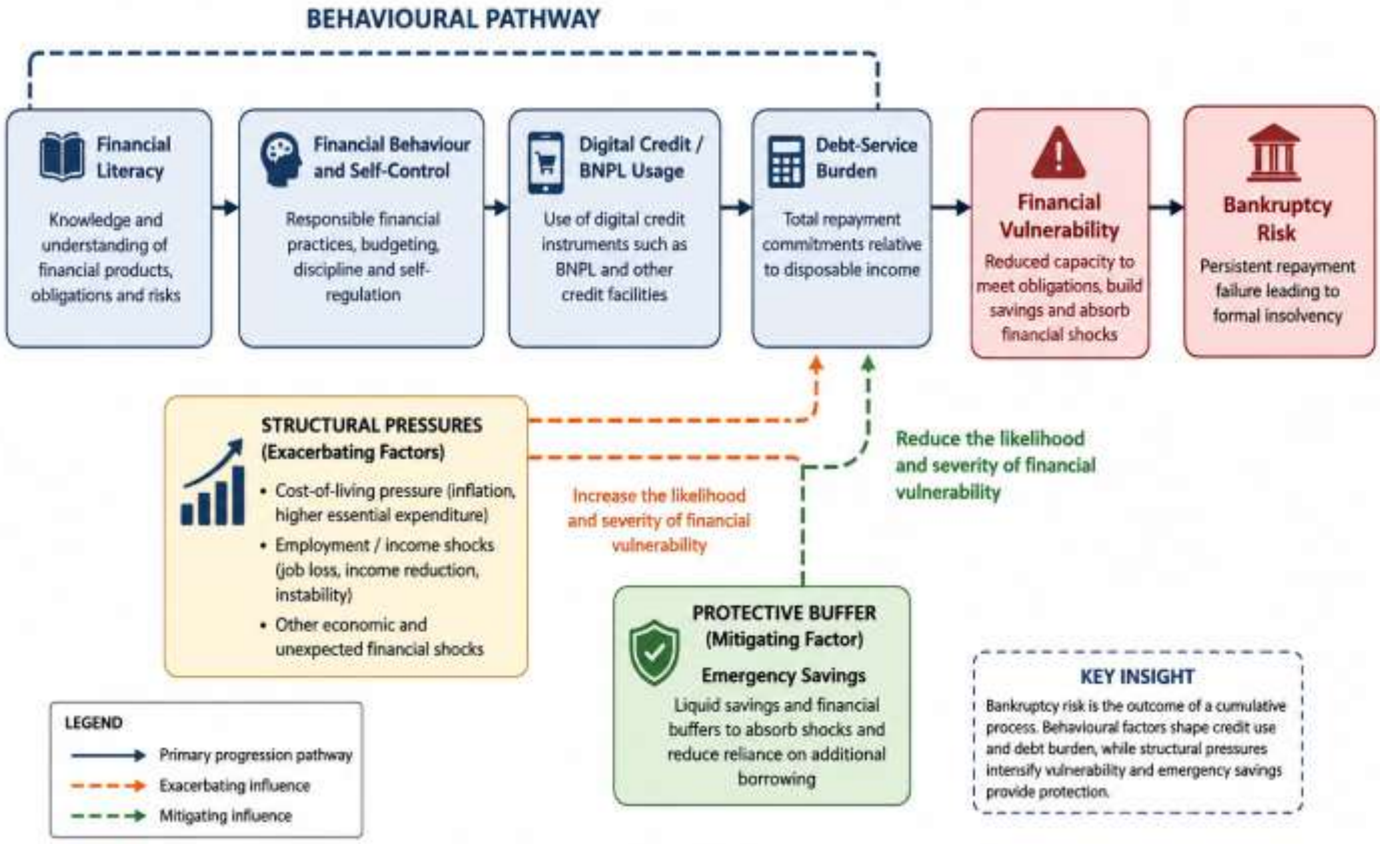

Figure 1. Proposed Analytical Framework of Household Financial Vulnerability and Bankruptcy Risk

Source: Authors' conceptualisation based on the Life-Cycle Hypothesis, Behavioural Finance Theory, and the literature synthesis.

METHODOLOGY

This study employs a qualitative approach based on directed document analysis and narrative synthesis to examine bankruptcy trends, household financial vulnerability, financial behaviour, and developments in consumer credit in Malaysia. The review was designed to integrate recent evidence from different source types while maintaining a clear distinction between official statistical evidence, peer-reviewed empirical research, and supplementary industry-based evidence.

The documentary sources were organised into three main categories: (i) official government and institutional documents; (ii) peer-reviewed academic articles; and (iii) selected industry reports. Official and institutional sources included bankruptcy statistics from Jabatan Insolvensi Malaysia (MdI), Malaysian household debt data, the National Strategy for Financial Literacy 2026–2030, Economic Outlook 2026, documents issued by the Suruhanjaya Kredit Pengguna (SKP), and reports concerning financial capability and resilience. Peer-reviewed academic studies were used primarily to examine relationships among financial literacy, financial behaviour, self-control, digital credit usage, indebtedness, financial vulnerability, and financial well-being. Selected industry reports were used only as supplementary evidence of recent consumer perceptions and financial pressures.

A total of 34 documents and studies were included in the final synthesis. Sources were selected according to four inclusion criteria: (i) direct relevance to bankruptcy, financial vulnerability, financial well-being, household debt, financial behaviour, financial resilience, or digital credit; (ii) priority given to evidence relating to Malaysia, supplemented by relevant international studies that supported theoretical interpretation and comparison; (iii) priority given to official reports and peer-reviewed studies published between 2023 and 2026 in order to capture post-pandemic developments and recent changes in the consumer-credit landscape; and (iv) availability of an identifiable and traceable publication source through official agencies, academic publishers, recognised journals, or DOI records. Earlier seminal studies were retained where necessary to establish the theoretical and conceptual foundations of the analysis.

Sources were excluded when they were not directly related to the objectives of the study, when the original source could not be identified or verified, or when they provided insufficient information for meaningful analysis. Particular care was taken to distinguish the evidential weight of different source categories. Official statistics and institutional publications were treated as the primary basis for describing bankruptcy trends, household debt, and regulatory developments. Peer-reviewed studies were used to interpret behavioural and financial relationships, whereas industry surveys and reports were treated as supplementary perception-based evidence. Industry evidence was therefore not used as a substitute for official statistics when drawing policy-related conclusions but was triangulated with institutional and academic evidence where appropriate.

Data were extracted and analysed using thematic analysis. Relevant information from each selected source was reviewed, coded, compared, and grouped according to conceptual similarities and recurring issues. The coding process focused on factors associated with the progression from financial pressure to vulnerability and, ultimately, formal bankruptcy. The analysis generated five principal themes: (i) bankruptcy trends; (ii) debt structure and composition; (iii) financial literacy, financial behaviour, self-control, and financial resilience; (iv) digital credit and BNPL developments; and (v) legal, preventive, and recovery responses.

Coding consistency was maintained through repeated comparison of the extracted evidence with the study objectives, theoretical framework, and predefined thematic categories. Where evidence overlapped across themes, the source was interpreted according to its primary analytical contribution while cross-theme relationships were retained in the narrative synthesis. Evidence from different source categories was also compared through triangulation to identify convergence, divergence, and differences in evidential strength. This procedure was intended to enhance analytical consistency and reduce the risk of drawing conclusions from isolated sources.

To ensure accurate interpretation of temporal trends, the study distinguishes complete annual data from interim statistics. At the time this article was prepared, the latest official full-year bankruptcy statistics were for 2025. Data up to March 2026 are therefore used only as interim indicators and are not extrapolated to estimate total bankruptcies for the whole of 2026. This approach avoids potentially misleading comparisons between complete annual data and partial-year observations.

Given its qualitative and secondary-data design, the analysis is intended to identify recurring patterns, conceptual relationships, and plausible pathways rather than establish causal effects. Relationships identified among financial literacy, financial behaviour, self-control, digital-credit usage, debt burden, economic shocks, financial vulnerability, and bankruptcy should therefore be interpreted as analytical associations derived from the synthesis of existing evidence. Establishing causality would require primary, longitudinal, or econometric evidence beyond the scope of the present study.

FINDINGS AND DISCUSSION

Bankruptcy Trends, 2021–2026

New bankruptcy cases declined from 6,554 in 2021 to 4,810 in 2023 before increasing to 5,977 in 2024 and 6,776 in 2025. The approximately 13.4% increase in 2025 compared with 2024 warrants attention, but should not be interpreted as conclusive evidence that the entire household sector is in crisis. For the period from 2021

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to March 2026, a total of 31,517 cases were recorded; these interim data confirm that insolvency pressure continued into 2026.

Year	Cases	Change / Note
2021	6,554	–
2022	5,695	−13.1%
2023	4,810	−15.5%
2024	5,977	+24.3%
2025	6,776	+13.4%
2026*	1,705*	Jan–Mar only

Table 1. Bankruptcy trends in Malaysia, 2021–March 2026. *The 2026 figure is derived as the difference between the cumulative total of 31,517 cases up to March 2026 and 29,812 cases for 2021–2025; it is a calculation based on reported official figures, not a full-year total.

For the period 2021–2025, individuals aged 35–44 accounted for the largest share of cases, at approximately 40%, followed by those aged 45–54. Data up to March 2026 also show that 4,704 cases, or 15% of the 2021–March 2026 total, involved individuals aged 34 and below. This pattern indicates that prevention strategies should cover both young people and middle-aged households in phases of high financial commitment.

Concern about this trend has also been expressed at the ministerial level. In April 2026, the Minister of Economy emphasised that of the 31,517 cases recorded from 2021 to March 2026, 15% (4,704 cases) involved young people aged 34 and below. This figure is particularly concerning because it indicates that part of the young workforce has accumulated serious debt liabilities before reaching optimal financial stability.

Causes of Bankruptcy and the Structure of Financial Commitments

Personal loans are the largest formal cause of bankruptcy. For 2021–2025, this category accounted for 46.63% of cases. Data up to March 2026 show that 14,582 of 31,517 cases, or approximately 46%, were attributed to personal loans. This consistent pattern indicates that prevention strategies should pay particular attention to personal financing and repayment affordability, rather than focusing only on credit cards.

Cause	Cases 2021–2025	Percentage
Personal loans	13,900	46.63%
Business loans	5,763	19.33%
Housing loans	2,499	8.38%
Vehicle hire purchase	2,467	8.28%
Credit cards	972	3.26%
Others	4,211	14.12%

Table 2. Causes of bankruptcy for the period 2021–2025. Source: MdI (2026a).

Overview of Household Credit and Developments in 2026

Economic Outlook 2026 shows that outstanding household-sector loans amounted to RM1.3815 trillion in 2025, compared with RM1.3053 trillion in 2024. Residential-property financing was the largest component, followed by passenger vehicles and personal use. The government also emphasised measures to reduce credit risks arising from digital banks and BNPL through affordability and suitability standards and regulation under the Consumer Credit Act.

Purpose	Outstanding loans 2025	Share
Residential property	RM865.4 bilion	62.6%
Passenger vehicles	RM206.6 bilion	15.0%

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Personal use	RM119.4 bilion	8.6%
Credit cards	RM47.4 bilion	3.4%
Securities	RM56.3 bilion	4.1%

Table 3. Composition of selected outstanding household loans in 2025. Source: Ministry of Finance Malaysia (2025), based on BNM data.

In 2026, enforcement of the Consumer Credit Act and the establishment of SKP strengthened the consumer-protection framework. Authorisation Standards and Conduct Standards issued in June 2026 established licensing, registration, and conduct requirements for major Phase I activities. These regulatory developments complement the broader financial-stability framework reported by Bank Negara Malaysia (2026), which continues to emphasise household debt-servicing capacity and the resilience of the financial system. Together, these developments provide a stronger basis for monitoring household credit risks and promoting more consistent oversight of non-bank credit and lending practices.

Financial Literacy, Behaviour and Financial Resilience

The National Strategy for Financial Literacy 2026–2030 (Financial Education Network [FEN], 2025) shows that Malaysia's financial well-being index declined from 40.0 in 2021 to 36.8 in 2024. Only 37% of Malaysians were reported to be able to cover living expenses for more than three months if they lost their income. MFPC (2026) further states that 61% of Malaysians face difficulty producing RM1,000 in emergency cash, up from 47% in 2021. These findings emphasise that vulnerability may exist long before an individual reaches insolvency.

Evidence from Malaysian studies reinforces the importance of translating financial knowledge into effective financial behaviour. Sabri et al. (2024) show that financial behaviour mediates the relationship between several personal factors and young adults' financial well-being. Alwi et al. (2026) similarly demonstrate, through qualitative evidence among young Malaysian employees, that budgeting behaviour, credit awareness, self-control, and the use of digital financial tools are important components of debt-management capability. Wellfren et al. (2025) examine risk tolerance and the financial well-being of youth in Sabah, while Mahdzan et al. (2026) show that digital financial behaviour is an important pathway to financial well-being among Generation X and Millennials. Taken together, these findings suggest that financial-literacy interventions should move beyond knowledge acquisition and place greater emphasis on sustained financial practices, self-regulation, and responsible debt management.

Cost of Living and Household Vulnerability

Cost-of-living pressure represents an important structural factor affecting household financial resilience. Sun Life Malaysia (2026) reports that 87% of respondents felt that inflation made it more difficult to meet monthly expenses, while only 11% reported feeling financially secure. These figures are perception-based indicators derived from an industry survey and should not be interpreted as official measures of household financial conditions. Nevertheless, when considered alongside institutional statistics and peer-reviewed evidence, they provide useful supplementary insight into consumers' perceived financial pressures.

RinggitPlus (2025) similarly indicates increasing financial pressure among middle-income consumers. This evidence suggests that financial vulnerability should not be viewed as a condition affecting only lower-income households. Middle-income households may also become vulnerable when relatively high fixed commitments, debt repayments, and essential expenditure absorb a substantial proportion of disposable income. An income level that appears adequate in absolute terms may therefore provide limited protection when financial commitments rise faster than household income or when emergency savings are insufficient.

Age also provides an important dimension of financial vulnerability. As shown in the bankruptcy statistics discussed in Section 4.1, individuals aged 35–44 represented the largest share of bankruptcy cases during 2021–2025, while individuals aged 34 and below accounted for approximately 15% of cases recorded between 2021 and March 2026. These patterns indicate that vulnerability may occur at different stages of the life cycle.

Younger adults may face risks associated with relatively limited savings, early credit commitments, and emerging consumption needs, whereas middle-aged individuals may simultaneously face housing, vehicle, family, and other accumulated financial commitments.

Employment and household circumstances may further shape the capacity to withstand financial shocks. Income disruption or employment instability can reduce repayment capacity, particularly among households with high fixed commitments and limited emergency savings. Household responsibilities may similarly affect the amount of disposable income available for debt repayment and saving. However, the secondary evidence reviewed in this study does not provide sufficiently consistent disaggregated bankruptcy statistics across employment status and household categories to permit reliable numerical comparisons between these groups. Accordingly, no causal or quantitative differences across such categories are inferred in the present analysis.

Taken together, the available evidence indicates that household financial vulnerability is heterogeneous rather than confined to a single demographic or income category. Age, income position, debt commitments, savings capacity, employment or income shocks, and household responsibilities may interact in determining financial resilience. This reinforces the need for prevention strategies that are responsive to different household circumstances rather than relying on a uniform approach to financial education and debt management.

Strategies to Strengthen Financial Resilience

First, financial education should shift from a knowledge-based model to a behaviour-based model. Programmes should teach budgeting, calculation of total commitments, responsible use of credit, building emergency funds, and digital-debt management. This approach is consistent with evidence that literacy is more effective when translated into consistent financial behaviour (Lusardi & Streeter, 2023; Sabri et al., 2024; Mahdzan et al., 2026).

Second, credit-affordability assessments should consider the borrower's overall financial position. Given that personal loans are the largest cause of bankruptcy, credit providers should take into account living costs, non-bank commitments, BNPL obligations, and potential income shocks rather than relying solely on formal eligibility criteria.

Third, early-warning systems can use indicators such as repeated arrears, the use of credit for basic expenditure, declining savings balances, increasing numbers of credit facilities, and frequent loan applications. Intervention before repayment failure becomes severe has the potential to reduce remediation costs for consumers and institutions.

Fourth, enforcement of the Consumer Credit Act 2025 should be accompanied by consumer education on rights, cost transparency, and contractual implications. BNPL in particular should be understood as a credit commitment even when individual transactions appear small. SKP's conduct standards in 2026 provide a clearer basis for fair, responsible, and professional credit practices.

Fifth, building an emergency fund should be made a core component of financial resilience. Automatic saving, regular micro-transfers, and goal-based education can help households build buffers gradually.

Sixth, post-bankruptcy recovery should emphasise a second chance through financial counselling, debt restructuring, budget rebuilding, income enhancement, and restoration of saving capacity. Evidence from Agensi Kaunseling dan Pengurusan Kredit (AKPK, 2025) demonstrates the practical importance of structured debt-management and financial-advisory interventions in improving borrowers' debt-servicing capacity. Recovery strategies should therefore extend beyond legal discharge to strengthen financial capability and reduce the risk of recurring debt cycles.

Seventh, structured bankruptcy-discharge initiatives should be expanded to enable bankrupt individuals to rebuild their lives. On 16 February 2026, the government, through Jabatan Insolvensi Malaysia (MdI, 2026b), launched the Second Chance Policy Programme – Fast Track Discharge. The programme focuses on faster bankruptcy discharge for four affected target groups: single mothers or fathers, micro, small and medium enterprise (MSME) borrowers, victims of financial scams, and purchasers affected by abandoned housing projects. In addition, the government increased the bankruptcy-discharge threshold from RM50,000 to RM200,000. Such rehabilitation-oriented approaches are critical to ensure that vulnerable groups do not remain trapped in the insolvency system and can instead resume productive participation in the economy.

Policy and Research Implications

This study reinforces the importance of distinguishing among indebtedness, financial vulnerability, and formal bankruptcy. Debt is not inherently problematic when supported by adequate income, assets, savings, and repayment capacity. Financial vulnerability may develop before formal repayment failure occurs, whereas bankruptcy represents the legal endpoint of severe and persistent financial distress. Policy effectiveness should therefore be assessed not only through insolvency statistics but also through earlier indicators such as emergency savings, debt-service affordability, financial behaviour, digital-credit commitments, and financial well-being.

The findings also suggest that prevention policies should recognise the interaction between behavioural and structural factors. Financial literacy alone may be insufficient when knowledge is not translated into responsible financial behaviour and self-control. Similarly, digital credit such as BNPL should not be treated as an isolated cause of financial distress; its implications depend on cumulative credit commitments, repayment capacity, household financial buffers, and exposure to cost-of-living or income shocks. Policy interventions should therefore combine behaviour-based financial education, responsible affordability assessment, early detection of repayment stress, appropriate oversight of digital credit, and accessible financial counselling.

Future research should empirically test the analytical pathways proposed in this study. Primary surveys could examine the relationships among financial literacy, financial behaviour, self-control, BNPL usage, debt-service burden, emergency savings, financial vulnerability, and bankruptcy risk. In-depth interviews with bankrupt or financially distressed individuals could provide further insight into the behavioural and household circumstances preceding formal insolvency. Longitudinal datasets and econometric modelling would be particularly valuable for distinguishing predictive or causal relationships from cross-sectional associations and for evaluating the longer-term effects of the Consumer Credit Act 2025.

Comparative research across age, income, employment, and household categories is also warranted. Such analysis would help determine whether the pathways to financial vulnerability differ between younger and middle-aged adults, lower- and middle-income households, different employment circumstances, and households with different financial responsibilities. This evidence could support more targeted prevention and recovery policies rather than a uniform approach to household financial vulnerability.

Study Limitations

Several limitations should be acknowledged when interpreting the findings. First, the study relies exclusively on qualitative secondary evidence drawn from official and institutional documents, peer-reviewed studies, and selected industry reports. The design enables the synthesis of recent evidence from multiple sources but does not permit causal relationships to be established among financial behaviour, BNPL usage, debt-service burden, financial vulnerability, and bankruptcy. The pathways proposed in this study should therefore be interpreted as analytical relationships requiring subsequent empirical testing.

Second, the different source categories vary in their methodological characteristics and evidential strength. Official statistics provide the primary basis for bankruptcy and household-credit trends, whereas peer-reviewed studies support the interpretation of behavioural relationships. Industry surveys are used only as supplementary indicators of consumer perceptions and contemporary financial pressures and should not be interpreted as equivalent to official statistics.

Third, the available secondary evidence does not provide consistently disaggregated information across age, income, employment, and household categories. Although some differences can be identified, particularly by age and income position, the study cannot provide systematic comparisons across all demographic and household groups.

Finally, the 2026 bankruptcy figures used in this study are interim statistics up to March 2026 and should not be interpreted as full-year outcomes. Future studies should update the analysis when complete annual statistics become available and complement documentary evidence with primary surveys, interviews with bankrupt or financially distressed individuals, longitudinal datasets, and econometric modelling.

CONCLUSION

Individual bankruptcy in Malaysia increased to 6,776 cases in 2025. For the period 2021–2025, individuals aged 35–44 formed the largest group, while personal loans were the main cause. Interim data up to March 2026 show a cumulative total of 31,517 cases since 2021 and maintain the pattern of personal loans as the leading contributor. At the same time, 2026 marks an important institutional shift through the enforcement of the Consumer Credit Act 2025 and the establishment of SKP.

Recent evidence indicates that the central issue extends beyond the absolute amount of debt. Financial resilience is influenced by emergency savings, behaviour, literacy, self-control, the cost of living, and credit-product design. Appropriate strategies therefore require a layered prevention approach: strengthening financial capability, ensuring responsible credit provision, managing digital credit risk, detecting financial stress earlier, and providing effective recovery pathways. Such an approach may help reduce bankruptcy while sustainably strengthening household financial well-being.

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