



# ***The Significance of Financial Literacy for Family Wealth Management: A Critical Study from Maqasid Perspective***

***Aulia Arifatu Diniyya***

***Assist. Prof. Dr. Raudlotul Firdaus Fatah Yasin***

***Assoc. Prof. Dr. Mek Wok Mahmud***

# Abstract

*Financial literacy has a tremendous impact on sustaining family financial management. Lack of financial knowledge may lead to arising financial problems within the family which also may affect the personal relationship and working performance of its members. Managing wealth realizes the Maqasid Shariah, Hifz al-mal (preservation of wealth) to ensure the sustainable life of every individual and Hifz al-nafs (preservation of life). This study addresses the importance of financial literacy in the dynamic environment of household financial management to avoid family problems such as divorce, financial arguments and broken family which would be contradictory to the intent of the Shariah. The literature on financial literacy and family financial management were critically reviewed and used in an attempt to highlight the financial issues within the family. This paper explores financial literacy in family financial management as well as the conflicts that arise from financial problems. Considering the urgency of financial literacy in the dynamic environment of household financial management, it aims to create awareness and propose recommendation on promoting the financial literacy in managing household's finance as part of the preservation of Maqasid in Malaysia context.*

*Keywords: Financial Literacy, Family Wealth Management, Maqasid Shariah.*

# Introduction

*Financial management is considered as part of hifz al mal (preservation of properties) in Maqasid Shariah due to its importance within the family for sustainable life of the family*

*Proper financial management is vital to maintain the healthy financial condition of the family which accomplishes another domain of the Maqasid Shariah known as hifz al-nafs or preservation of life*

*The failure of managing the family's financial resources might result in financial distress and in the worst case, it will cause marital distress which affect the stability of the lives of the family members*

*Therefore, financial literacy is essential to help to solve the family conflict caused by poor family financial management*

# ***Maqasid Shariah***

- According to Dusuki & Abdullah (2007) that Al-Shatibi classifies *maslahah* into three categories:

*Daruriyat: The essentials are the self-interests upon which people essentially depend, such as faith, life, intellect, posterity, and wealth.*

*Hajiyat: The complementary interests supplement the essentials and refer to those interests that, if neglected, would lead to hardship but not to the total disruption of life's normal order.*

*Tahsiniyat: The embellishments refer to those interests that, if realized, would lead to refinement and perfection in the customs and conduct of people*

- According to Imam al-Ghazzali:

*The objective of the Shari`ah is to promote the well-being of all mankind, which lies in safeguarding their faith (din), their human self (nafs), their intellect (`aql), their posterity (nasl) and their wealth (mal). Whatever ensures the safeguard of these five serves public interest and is desirable.*

**“A combination of awareness, knowledge, skill, attitude, and behaviour necessary to make a sound financial decision and achieve financial wellbeing” (Atkinson & Messy)**

**FINANCIAL  
L  
LITERACY  
DEFINITION**

**“Financial literacy is the ability to use knowledge  
and skills to manage financial resources effectively  
for a lifetime of financial wellbeing”  
President’s Advisory Council on Financial Literacy  
(PACFL)**

**FINANCIA  
L  
LITERACY  
DEFINITION**

## **4 standards to measure financial Literacy (Huston, 2010)**

**01**

### **Money Basic**

*understanding personal finance*

**02**

### **Investing**

*know how to save present resources for future use*

**03**

### **Borrowing**

*know how to bring future resources into the present*

**04**

### **Protecting Resources**

*understanding the strategies to secure assets*

## **5 standards to measure financial Literacy (The Institute for Financial Literacy, 2007)**

**01**

*Cash-flow and Net worth*

**02**

### **Credit**

*Obtain and implication of using credit*

**03**

### **Debt Management**

*Know how to measure and solve the debt issue*

**04**

### **Risk Management**

*protecting assets and life quality using risk management strategies*

**05**

### **Investing and Retirement Planning**

*To achieve financial goals*

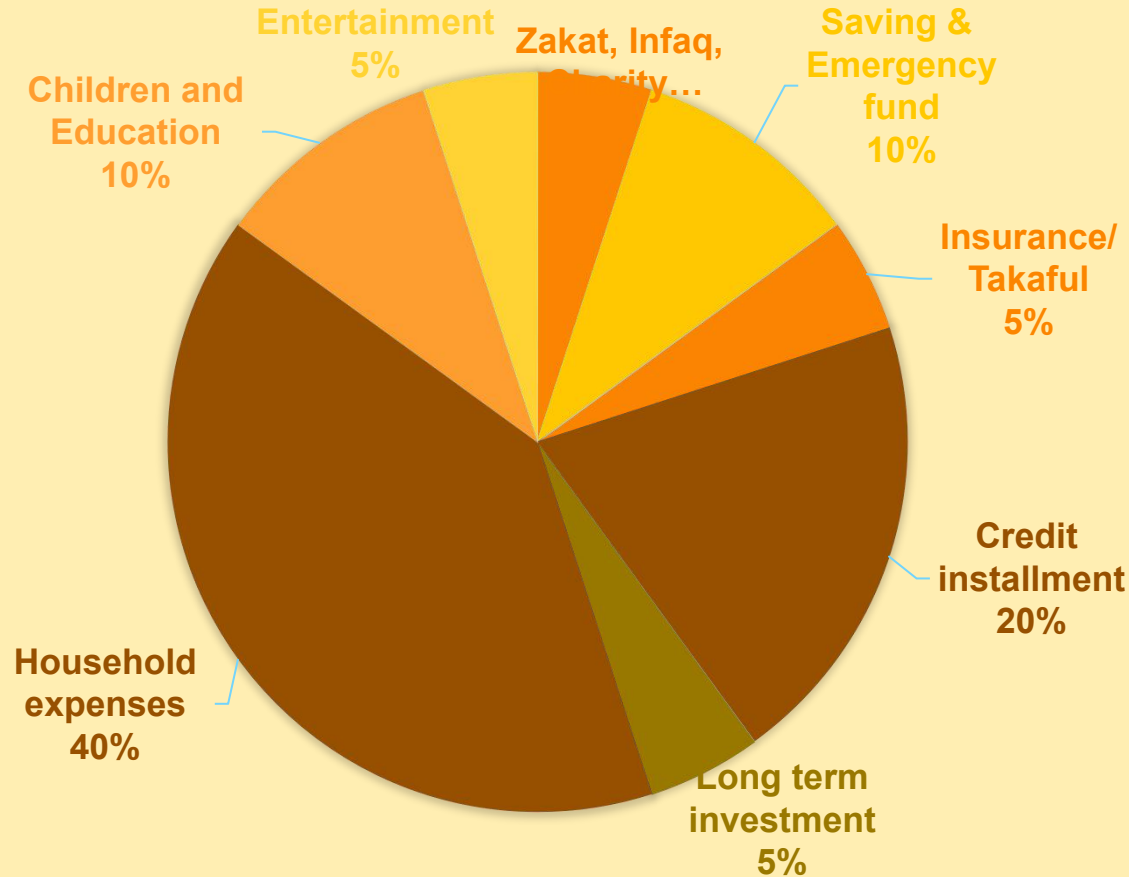
# ***Financial Literacy for Family Wealth Management***

- *Lahsasna (2017) defined wealth management as a process to meet the financial goal of an individual using his finances and existing wealth through proper management.*
- *Wealth management process among others include wealth creation, accumulation, protection, distribution and purification.*
- *The dynamic control and management of money within the family are more complex than managing the money of a single household (Kim et al. 2017; Bertocchi et al. 2014). Money is the key to financial management task for couples and family system, and possibly to become the source of family conflict. According to Rettig (1993) as cited by Kim et al. (2017), when the family allocate the scarce resources (time, money, energy, etc.) to achieve the essential family goals, then the balancing of needs and resources is necessary.*
- *Islam allows people to accumulate wealth as Al-lah said in Qur'an:  
"And We have made the night and day two signs, and We erased the sign of the night and made the sign of the day visible that you may seek bounty from your Lord and may know the number of years and the account [of time]. And everything We have set out in detail." (al-Isra: 12)*

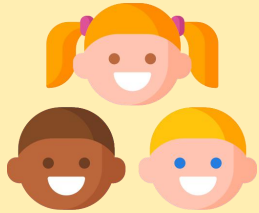
# 50, 30, 20 Budgeting Rules (Elizabeth Warren, 2005)



# ***Family Financial Planning (OJK)***



# *The Importance of Family Financial Literacy in Preserving the Maqasid Shariah*



*children influence family financial decision*



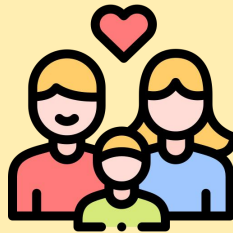
*A small financial problem can be overwhelming for those who are financially illiterate*



*Spending money unwisely is found to increase the prediction of divorce by 45% (Dean, et.al 2007, p.263)*



*A person with high level of financial stress is more likely to miss the work due to poor health condition (Kim & Garman, 2003)*



*individuals with higher financial literacy make better decisions and enjoy higher financial security and wellbeing (Addin et al., 2013)*



*The absence of financial literacy may lead to the destruction of family wellbeing which will lead to harm (darar) instead of acquiring benefits (maslahah).*

## Financial Problem in Malaysia



### Bankruptcy

2007 → 13,238

2013 → 21,987

2019 → 294,000



### Bankruptcy at age 35 – 45

**70%**



### Long term debt

**75%** of  
consumers aged  
between 20 and 33

### More than one debt

**37%**  
had more than one  
debt



# Financial Literacy in Malaysia

## Financial Education Network (FEN), 2019

understand the meaning of inflation and only 38% can relate the effect of inflation on the purchasing power

**25%**  
**92%**

have deposit products but less take-up on investment products

have a budget, but 2 in 5 find it difficult to keep to the budget

**52%**

have difficulty in raising RM 1,000 as emergency funds

can sustain living expenses for at least 3 months or more if they lose their primary source of income (only 10% can sustain for more than 6 months)

**68%**

of the active EPF members do not achieve the Basic Savings recommended according to the age band

# ***Six Challenges of Family Financial Management***

## ***Lack of Income***

*not having enough money is the biggest issue families are facing*

## ***Unperictable Events***

*anything bad can happen at any time*

## ***Job Loss***

*losing the job can affect the entire family situation*

## ***Children***

*The number of children affects the amount of household asset accumulation and dispersion*

## ***Marital and Family Issues***

*the problem in meeting the agreement in making a financial decision may lead to marital conflict*

## ***Debt***

*not taking control over the debt may lead to bankruptcy, financial distress, productivity problem, as well as family problems*

# Conclusion

- *Understanding budget allocation such as the 50/30/20 budgeting rule suggested by Elizabeth Warren (2005) and budget allocation by OJK, will help the family to manage their budget properly.*
- *Due to the uncertainty of the global economic condition, individual must be aware of the importance of budgeting and saving to plan their future life and to ensure the sustainability of living for their family members*
- *Increasing the awareness of financial literacy will help to reduce the number of abandoned parents due to their failure in preparing for retirement or pension fund as well as avoid the marital distress and financial argument.*
- *Good communication on Household financial management would help to prevent the financial mismanagement within family*
- *The goal of Financial literacy is in line with the Maqashid Shariah in which to protect family's wellbeing (preservation of properties (hifz al-mal) and life (hifz al-nafs)) and to bring Maslahah to the family members.*

***Thank You!***