JFatwa ISSN: 2232-1047 eISSN: 0127-8886
Journal of Fatwa Management and Research
مجلة إدارة وبحوث الفتاوى | Jurnal Pengurusan dan Penyelidikan Fatwa

MAY 2026 | VOL. 31 | NO. 2
ISSN: 2232-1047 eISSN: 0127-8886
www.jfatwa.usim.edu.my

ISLAMIC PERSPECTIVES ON UNDERSTANDING AND MITIGATING YOUTH DEBT AND BANKRUPTCY IN MALAYSIA: A SYSTEMATIC ANALYSIS

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Received: 5 March 2026 *Accepted: 8 April 2026* *Published: 26 May 2026*
DOI: https://doi.org.10.33102/jfatwa.vol.31no2.854

ABSTRACT

The rising phenomenon of youth bankruptcy in Malaysia is a growing concern, reflecting a significant disconnect between contemporary financial practices and Islamic ethical standards. This study aims to evaluate youth financial behavior through the lens of Shariah principles, specifically the prohibition of Riba (usury), Wasatiyyah (moderation), and Amanah (stewardship). Utilizing the PRISMA 2020 guidelines, a systematic literature review was conducted. From an initial identification of 275 records, a rigorous screening process based on stringent inclusion criteria was employed to select 10 primary empirical studies, ensuring the quality and relevance of the findings. The study identifies the primary drivers of indebtedness, which are then critically analyzed as a foundation for developing a faith-based financial resilience framework. This research shifts the discourse from purely technical economic variables to a values-driven perspective, offering practical solutions to address the psychological and spiritual harms of debt. The implications suggest that government and educational institutions should integrate Islamic ethical values into financial management modules to foster sustainable economic stability.

***Keywords**: Youth Bankruptcy, Financial Literacy, Islamic Financial Principles, Debt Management, Wasatiyyah (Moderation).*

1. INTRODUCTION

Over the past decade, Malaysia has witnessed a significant and persistent rise in youth bankruptcy, signalling a growing socioeconomic concern. According to the Department of Insolvency Malaysia, a total of 5,272 individuals aged 34 and below were declared bankrupt from 2020 to the present, with 5,189 of them falling within the 25 to 34 age range. The upward trend remains alarming; in 2024 alone, 877 new bankruptcy cases among youths were recorded, marking an increase from 727 cases the previous year. Personal loans constitute the largest proportion of bankruptcy triggers, accounting for 2,776 cases or 46.4% of all recorded instances in 2024. Other contributing factors include vehicle hire purchase, corporate guarantee liabilities, unpaid income taxes, credit card debt, failure to contribute to the Employees Provident Fund (EPF), as well as education-related loan defaults. Collectively, these figures underscore the magnitude and multifaceted nature of youth financial distress in Malaysia.

The financial well-being of young people plays a crucial role in shaping national socioeconomic stability, and the surge in youth indebtedness reflects broader structural and behavioural vulnerabilities. Existing literature consistently highlights insufficient financial literacy, lifestyle inflation, ineffective money management, and rising credit card dependency as key contributors to youth financial instability. These factors suggest that youth bankruptcy is not merely a result of individual failings but is instead embedded within larger socioeconomic pressures, evolving consumer culture, and shifting societal expectations. As the prevalence of financially distressed youth continues to grow, the need for systematic and sustainable intervention becomes increasingly urgent.

The consequences of bankruptcy extend beyond financial loss, affecting individuals' social mobility, access to opportunities, and long-term economic participation. Bankruptcy restricts financial autonomy through limitations on bank account usage, loan eligibility, asset ownership, and employment prospects. For the Muslim community, the impact is further magnified as young people are often regarded as custodians of future economic and spiritual development. Their financial decisions influence consumption patterns, savings behaviour, and broader economic activities across sectors such as education, technology, travel, food, and lifestyle industries. Therefore, youth financial instability poses not only economic risks but also social and developmental challenges for Malaysia as a Muslim-majority nation.

Central to this discussion is the Islamic ontological perspective on wealth, which views financial stability not merely as a material goal but as a core component of Maqasid al-Shariah (the objectives of Shariah). Specifically, the preservation of wealth (Hifz al-Mal) is one of the five essential pillars required for human well-being (Zailani et al., 2022). From this perspective, debt is not a neutral financial tool; it carries significant spiritual weight. Excessive indebtedness that stems from *Israf* (extravagance) and *Tabzir* (wastefulness) is seen as a violation of Amanah (stewardship), potentially leading to a loss of *Barakah* (divine blessing) in an individual's life (Abd Rahman, 2026). Consequently, the psychological distress experienced by bankrupt youth in Malaysia is often compounded by a sense of spiritual failure, as debt in Islam is a liability that transcends the earthly realm, affecting one's accountability in the hereafter (Abdullah et al., 2022). Therefore, mitigating bankruptcy requires a framework that addresses these spiritual and moral dimensions alongside technical financial literacy."

Malaysia's position as a Muslim-majority nation with a well-developed Islamic banking sector accounting for approximately 33% of total banking assets provides a unique context for evaluating youth financial behaviour through an Islamic ethical lens. Islamic finance, guided by Shariah principles derived from the Qur'an and Sunnah, emphasises fairness, transparency, and ethical conduct by prohibiting *riba* (interest), avoiding gharar (excessive uncertainty), and promoting risk-sharing arrangements. These principles offer a normative and values-driven framework that can complement contemporary financial practices, potentially providing stronger safeguards against behaviours that lead to bankruptcy.

This study provides an original contribution by shifting the analytical focus from conventional economic indicators to a values-based paradigm centered on the principle of Wasatiyyah (moderation). While previous literature has largely treated youth bankruptcy as a failure of market participation or financial knowledge (Chapra, 2008), this research argues that the crisis is symptomatic of a deeper disconnect from the ethical hierarchy of needs Daruriyyat (essentials), Hajiyyat (complementaries), and Tahsiniyyat (embellishments) (Dusuki & Bouheraoua, 2011). The originality of this research lies in its systematic synthesis of empirical data through this Shariah-based lens, offering a novel 'Financial Resilience Framework' that integrates socioeconomic drivers with the moral obligations of stewardship (Kamri & Daud, 2011). This approach moves beyond the 'how' of financial management to the 'why' of ethical consumption, providing a more culturally resonant solution for the Malaysian context.

Recent empirical and theoretical studies further reinforce the need to examine youth financial vulnerability through a more integrated analytical lens that combines socioeconomic determinants with ethical and behavioural dimensions. A substantial body of literature demonstrates that financial literacy significantly influences financial decision-making and debt behaviour among young adults, with lower literacy levels consistently associated with higher indebtedness and financial distress (Lusardi & Mitchell, 2014; Atkinson & Messy, 2012). In addition, behavioural factors such as impulsive consumption, social comparison, and lifestyle inflation have been identified as critical drivers of unsustainable borrowing patterns, particularly within rapidly modernising and consumption-driven societies (Agarwal et al., 2009; Dholakia et al., 2016). From an Islamic perspective, scholars argue that financial behaviour is not value-neutral but is inherently guided by moral and spiritual principles, where concepts such as moderation (wasatiyyah), accountability (hisab), and avoidance of excessive debt play a central role in ensuring financial well-being (Chapra, 2008; Obaidullah & Khan, 2008). Furthermore, emerging studies on Islamic financial literacy indicate that a lack of understanding of Shariah-compliant financial principles may contribute to suboptimal financial decisions among Muslim youths (Antara et al., 2016; Rahim et al., 2016). Despite these insights, the literature remains largely segmented, with limited attempts to systematically integrate conventional socioeconomic variables with Islamic ethical constructs into a unified framework. This fragmentation highlights the necessity for a comprehensive synthesis that bridges empirical findings with normative Islamic principles to better understand and address youth bankruptcy within the Malaysian context.

While existing research has documented factors such as lifestyle choices, poor financial management, and low financial literacy, current studies remain fragmented and lack a unifying framework that integrates these factors with Islamic ethical principles. Most analyses rely on conventional economic variables without contextualising findings within the moral and financial norms of Malaysia's majority Muslim population. This study addresses this gap by systematically synthesising contemporary empirical evidence and examining it through core Islamic financial principles. By doing so, the study moves beyond technical descriptions toward a holistic, values-based analytical approach that can inform more culturally grounded and sustainable financial resilience strategies.

2. LITERATURE REVIEW

2.1 *Theoretical Framework: Integration of Maqasid al-Shariah and the Hierarchy of Needs*

This study develops a theoretical framework based on an integrative approach that combines the principles of *Maqasid al-Shariah*, particularly the concept of *hifz al-mal* (preservation of wealth), with the Islamic hierarchy of needs, namely *daruriyyat* (essentials), *hajiyyat* (complementaries), and *tahsiniyyat* (embellishments) (Dusuki & Bouheraoua, 2011; Laldin & Furqani, 2013). This approach functions as an analytical lens to diagnose the root causes of youth bankruptcy while providing a foundation for translating the study findings into holistic and value-based solutions.

In addition, this framework is supported by insights from behavioural economics, which emphasises that financial decisions are not fully rational but are influenced by cognitive biases, social pressures, and lifestyle tendencies (Agarwal et al., 2009; Thaler, 2016). Therefore, the integration of normative dimensions (*maqasid*) and descriptive dimensions (behavioural economics) is essential in producing a more comprehensive analysis.

2.1.1 *Problem Analysis through the Lens of Hifz al-Mal*

Within the *Maqasid al-Shariah* framework, *hifz al-mal* refers to the obligation to protect, manage, and develop wealth ethically while avoiding wastefulness, exploitation, and injustice (Chapra, 2008; Obaidullah & Khan, 2008). From this perspective, youth bankruptcy should not be viewed merely as a technical failure in financial management but rather as a systemic failure in fulfilling the objective of wealth preservation as prescribed by Shariah. This principle requires individuals to make financial decisions that are not only economically rational but also spiritually accountable.

In this context, the concept of humans as *khalifah* (vicegerents) and trustees (*amanah*) constitutes the epistemological foundation of financial behaviour, whereby every decision related to wealth is accountable not only in this world but also in the hereafter (Chapra, 2008; Kamri & Daud, 2011).

2.1.2 *The Hierarchy of Needs as a Measure of Behaviour*

Furthermore, the Islamic hierarchy of needs provides a normative framework for evaluating financial behaviour. *Daruriyyat* encompasses essential needs required for survival, *hajiyyat* refers to needs that facilitate and ease life, while *tahsiniyyat* involves elements that enhance the quality of life (Dusuki & Bouheraoua, 2011). This study posits that youth debt problems stem from an "inversion of priorities," whereby expenditure on *tahsiniyyat* (lifestyle consumption) exceeds financial capacity, thereby undermining the stability of *daruriyyat*.

This principle is aligned with the concept of *wasatiyyah* (moderation), which emphasises balance in consumption and the avoidance of excess (*israf*) and wastefulness (*tabzir*), both of which are among the primary causes of financial imbalance among youth (Chapra, 2008).

2.1.3 *Linking Theory with Factors (Research Findings)*

Based on this framework, the contributing factors identified in the study can be systematically analysed through three key dimensions:

i. **Daruriyyat Dimension (Socioeconomic Factors):** Examining how income and cost of living influence the sustainability of essential needs (Lusardi & Mitchell, 2014).
ii. **Tahsiniyyat Dimension (Behavioural Factors):** Analysing how lifestyle patterns and financial literacy drive excessive consumption (Agarwal et al., 2009; Dholakia et al., 2016).
iii. **Value Dimension (Ethical Factors):** Assessing the internalisation of *wasatiyyah* and awareness of *maqasid* as mechanisms of self-regulation (Kamri & Daud, 2011).

This approach enables the integration of structural factors (socioeconomic), individual factors (behavioural), and normative factors (values), thereby producing a more robust multidimensional analysis compared to conventional approaches that focus solely on economic variables (Lusardi & Mitchell, 2014).

2.1.4 *Solution Framework: Islamic Financial Resilience Model*

Ultimately, this theoretical framework facilitates the development of a substantive solution model, namely the Islamic Financial Resilience Model. This model emphasises three key components:

- (i) Strengthening Shariah-based financial literacy (Abdullah et al., 2022).
- (ii) Cultivating financial behaviour grounded in *wasatiyyah* and recalibrating the hierarchy of needs.
- (iii) Reinforcing ethical awareness, including *amanah* (trust) and the responsibility of individuals as *khalifah* in wealth management.

This model aligns with the concept of financial resilience, which refers to the ability of individuals to absorb financial shocks, adapt to economic pressures, and make sustainable financial decisions in the long term (Lusardi et al., 2011). The integration of spiritual and ethical dimensions within this model thereby enhancing its analytical robustness and contextual relevance compared to conventional frameworks.

3. METHODOLOGY

This study employs a qualitative systematic literature review guided by the PRISMA 2020 (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) framework to ensure transparency, replicability, and methodological rigour in the literature selection process (Page et al., 2021). The approach is complemented by an interpretive analytical method to examine the relationship between empirical patterns of youth bankruptcy in Malaysia and relevant Islamic financial principles. The methodological design integrates a structured synthesis of empirical studies with an interpretive evaluation of how these findings align with Shariah-based concepts such as financial behaviour, moderation, and ethical stewardship.

Unlike conventional PRISMA-based reviews that are primarily descriptive, this study adopts a hybrid methodological approach by incorporating an Islamic epistemological framework, particularly *Maqasid al-Shariah*, as an analytical lens. This enables the study to address not only "what" and "how" questions but also the "why" from an ethical and value-based Islamic perspective, thereby strengthening the normative dimension of systematic review research (Chapra, 2008; Kamri & Daud, 2011).

3.1 *Data Sources and Search Strategy*

A systematic search was conducted using Scopus, Web of Science, Google Scholar, MyJurnal, and ProQuest with keywords including "youth," "bankruptcy," "debt," "insolvency," and "Malaysia." Eligible studies were limited to peer-reviewed empirical research published between 2015 and 2024, focusing on individuals aged 15 to 40 in accordance with the Youth Organizations and Youth Development (Amendment) Act 2019 [Act A1602], and available in English or Bahasa Malaysia with full-text access.

The search process followed the PRISMA 2020 workflow, including (i) identification of records, (ii) removal of duplicates, (iii) title and abstract screening, and (iv) full-text eligibility assessment (Page et al., 2021).

3.2 *PRISMA Data Reconciliation*

To ensure methodological accuracy and transparency, the numerical discrepancy identified during peer review has been rectified. A total of 275 records were initially identified through database searching. After duplicate removal, 158 unique records were screened at the title and abstract level. From these, 28 articles were assessed for full-text eligibility, and ultimately, 10 studies met all inclusion criteria and were included in the final synthesis. The PRISMA flow diagram has been revised accordingly in line with PRISMA 2020 guidelines (Page et al., 2021).

3.3 *Justification of Sample Size*

The inclusion of ten studies in the final synthesis is methodologically justified within the context of a qualitative systematic review employing an interpretive analytical approach. While larger sample sizes are often associated with quantitative meta-analyses, qualitative systematic reviews prioritise depth, contextual richness, and conceptual coherence over numerical breadth (Sandelowski et al., 1997; Noblit & Hare, 1988).

Importantly, the relatively small number of included studies reflects the application of stringent inclusion and exclusion criteria, which were deliberately designed to ensure methodological rigour, contextual relevance, and analytical precision. Specifically, the review focused exclusively on (i) empirical studies, (ii) within the Malaysian context, (iii) targeting youth populations aged 15-40, and (iv) explicitly addressing bankruptcy rather than general indebtedness. These criteria significantly narrowed the eligible pool but enhanced the internal validity and thematic consistency of the synthesis.

Furthermore, the final sample size is consistent with best practices in qualitative evidence synthesis, where theoretical saturation and thematic redundancy are more critical than sample volume (Guest et al., 2006). The analysis demonstrated that the ten selected studies were sufficient to capture recurring patterns across key dimensions, including lifestyle behaviour, financial literacy, financial management, credit usage, and financial commitments.

From a methodological standpoint, the concept of "information power" (Malterud et al., 2016) further supports the adequacy of the sample size. Given the study's focused research aim, specific sample characteristics, and strong theoretical framework grounded in Maqasid al-Shariah, fewer studies are required to generate meaningful and robust insights.

Additionally, the integration of Islamic ethical analysis necessitates a more selective dataset, as not all empirical studies provide content that can be meaningfully interpreted through a Shariah-based framework. Therefore, the smaller sample size enhances analytical depth by enabling a more nuanced and contextually grounded interpretation of findings.

Consequently, rather than constituting a limitation, the focused sample size strengthens the study's contribution by ensuring a high level of conceptual integration between empirical evidence and Islamic financial principles, thereby supporting the development of a coherent and theory-driven Financial Resilience Framework.

3.4 *Quality Appraisal and Data Extraction*

All included studies underwent a quality appraisal process assessing research design integrity, sampling adequacy, and analytical transparency. The appraisal was guided by established qualitative research criteria, including credibility, transferability, and confirmability (Lincoln & Guba, 1985), to ensure the robustness and trustworthiness of the synthesised evidence.

3.5 *Thematic Synthesis and Islamic Integration*

The extracted data were organised into thematic clusters, including excessive lifestyle behaviour, financial literacy, financial management, credit usage, and financial commitments.

These themes were subsequently mapped onto Islamic financial principles such as *wasatiyyah* (moderation), *amanah* (ethical stewardship), and *hifz al-mal* (wealth preservation), forming an integrated analytical framework. This approach aligns with Islamic research methodology, which emphasises the synthesis of empirical evidence with normative ethical principles in knowledge construction (Chapra, 2008).

May 2026 |Vol. 31 No.2 | ISSN: 2232-1047 | eISSN: 0127-8886

4. RESULTS & DISCUSSION

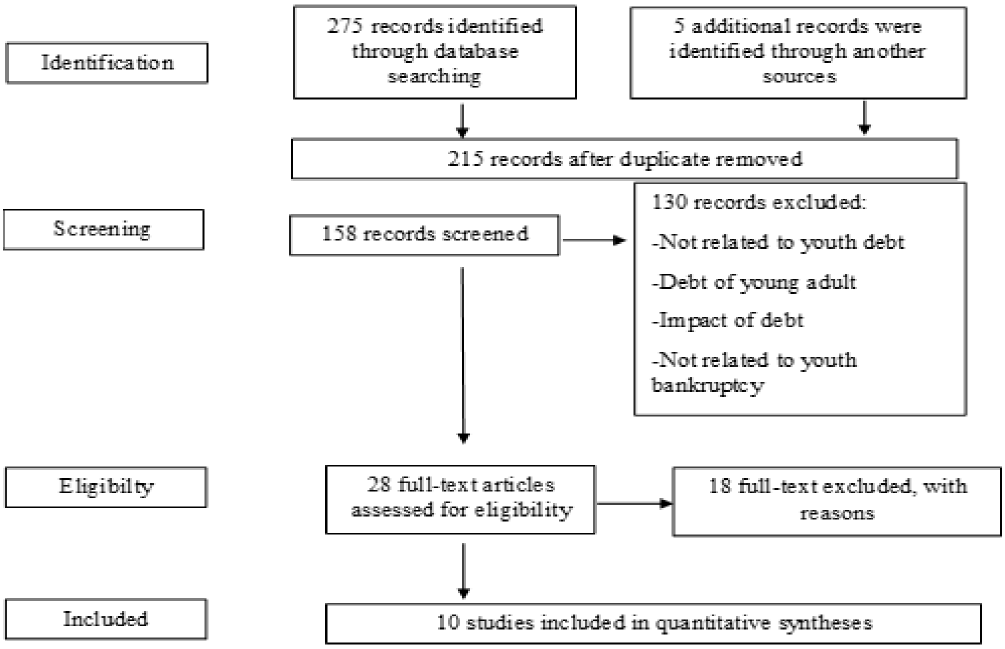

Figure 1. Flow chart of the systematic review
(Source: adaptation from PRISMA flowchart)

Table 1. Specific characteristics of studies

Authors	Year	Method	Key Finding
(Azmi et al., 2019)	2019	Quantitative (Survey Questionnaire)	Youth bankruptcy is increasing due to excessive lifestyle choices
(Faizal & Mohd Ashhari, 2015)	2015	Secondary Data & Observation	Non-performing loans and per capita income significantly relate to personal bankruptcy.
(Hassan et al., 2021)	2021	Quantitative (Questionnaire)	Lavish lifestyles and lack of financial discipline, such as misuse of credit and student.
(Tahir et al., 2022)	2022	Literature Review	Identified themes: Low Financial Literacy (LFL) and Attitude Towards Money (ATM) are key contributors to youth bankruptcy.
(Jamlus Rafdi et al., 2015)	2015	Literature Review	Weak financial management, excessive credit card uses, and overborrowing for unaffordable.
(Ating et al., 2024)	2024	PISA Data Analysis	Youth show low financial literacy and imprudent spending behavior (eg., buying new cars, laack of future planning).
(Abdul Rahim et al., 2022)	2022	Qualitative (Questionnaire	Explores the link between spending behavior, demographics, financial

		via Google Form)	knowledge, and money attitude.
(Syan et al., 2020)	2020	Quantitative (Survey)	Found links between spending behavior, credit card uses, financial commitments, and bankruptcy risk.
(Mohd Yusoff et al., 2024)	2024	Qualtitative	Critical factors, financial management, lending practices, behavioral attitudes, and financial education.

4.1 *Excessive Lifestyle Choices through the Lens of Wasatiyyah*

The systematic review reveals that excessive lifestyle choices constitute a major driver of youth bankruptcy in Malaysia, with studies by Azmi et al. (2019), Hassan et al. (2021), and Ating et al. (2024) consistently demonstrating how conspicuous consumption, lifestyle-driven spending, and social pressure significantly elevate financial vulnerability among young adults. These patterns of behaviour are incompatible with the Islamic principle of *wasatiyyah* (moderation), articulated in Quran 25:67, which commands believers to avoid both extravagance and miserliness by maintaining balanced consumption. The rejection of *israf* (wastefulness), emphasised in Quran 17:27, further categorises extravagant spending not only as financially harmful but also spiritually reprehensible.

Critically, this pattern reflects a deeper structural-cultural shift in consumption behaviour, where identity formation among youth is increasingly mediated through material display and social validation. This aligns with the theory of conspicuous consumption by Veblen (1899) and contemporary behavioural insights highlighting the role of social comparison in financial decision-making (Dholakia et al., 2016). Within the Islamic framework, such behaviour is not merely inefficient but normatively deviant, as it contradicts the ethical objectives of *maqasid al-Shariah*, particularly *hifz al-mal* (wealth preservation) (Chapra, 2008).

The empirical evidence suggests that social media intensifies the pressure for conspicuous consumption, a phenomenon linked to the Islamic concept of riya' (showing off). The Prophet Muhammad warned that ostentation leads to divine disclosure of one's real intentions. In response to these Malaysian societal expectations, the Islamic value of Qana'ah (contentment) provides a vital counter-perspective, encouraging individuals to be satisfied with God's gifts and prioritize needs over desires. By promoting conscious consumption rather than impulsive spending, wasatiyyah serves as a holistic philosophical foundation for financial resilience. This is particularly crucial as students with robust Shariah financial literacy are better equipped to resist lavish lifestyle impulses, leading to healthier and more thoughtful spending habits (Halim et al., 2024).

From an analytical standpoint, *wasatiyyah* functions not only as a moral guideline but as a behavioural regulatory mechanism that mitigates impulsive consumption and enhances long-term financial resilience. This supports emerging literature that links value-based consumption frameworks with improved financial well-being outcomes (Lusardi & Mitchell, 2014).

The integration of Islamic values into financial education and social programming presents a culturally resonant approach to combating excessive consumption patterns among Malaysian youth. The Islamic concept of wasatiyyah (moderation) provides a comprehensive philosophical foundation that extends beyond mere financial restraint to encompass a holistic lifestyle approach. As emphasized in the Quranic verse (25:67), believers are those who *"when they spend, they are neither extravagant nor stingy but maintain a just balance between those extremes."* This principle directly addresses the root causes of financial mismanagement by promoting conscious consumption rather than impulsive spending triggered by social pressure or advertising influence.

Islamic teachings on wealth management are particularly relevant in addressing youth bankruptcy (Latif et al., 2024). The prohibition against *riba* (interest) encourages debt avoidance, while the principle of *amanah* (trusteeship) frames wealth as a responsibility rather than an entitlement. Islamic financial ethics promote sustainable development at both individual and societal levels by discouraging conspicuous consumption. Students with a high standard of living but limited Sharia financial literacy often succumb to patterns of excessive and unproductive consumption. In contrast, students possessing a robust comprehension of sharia finance can withstand consumptive impulses, even within an environment that promotes a lavish lifestyle. This outcome aligns with the research conducted by Tini et al. (2025), higher levels of sharia financial literacy have been linked to healthier shopping habits and more thoughtful spending by students in Malaysia. Additionally, it emphasised that the Islamic view of financial literacy considers not only cognitive aspects but also ethical and spiritual aspects that impact responsible financial behaviour. A modern lifestyle greatly increases the risk of overconsumption, according to research on Pakistani students; however, this effect can be lessened with improved financial literacy and self-discipline.

4.2 *Financial Literacy through Maqasid al-Shariah*

The universal identification of inadequate financial literacy as a critical factor in youth bankruptcy across all ten studies aligns with the Islamic emphasis on knowledge ('ilm) and the preservation of wealth (hifz al-mal) under the Maqasid al-Shariah framework. From an Islamic perspective, acquiring financial knowledge is not merely a practical necessity but a religious obligation under the broader imperative to seek beneficial knowledge. Investigating Islamic financial literacy through the framework of Maqasid al-Shariah and determining its contribution to improving financial stability and ethical financial conduct in underserved communities. The findings indicate that although the participants have a fundamental comprehension of Islamic principles, considerable deficiencies are evident in the practical implementation of financial management tools and contemporary financial practices (Muawaliyah & Saifuddin, 2023).

However, the findings suggest that financial literacy must be reconceptualised beyond technical competence to include ethical cognition and behavioural discipline. This aligns with behavioural economics literature demonstrating that knowledge alone does not guarantee rational financial behaviour due to cognitive biases and social influences (Thaler, 2016; Agarwal et al., 2009). Within the maqasid framework, knowledge becomes instrumental only when translated into ethically guided action.

The Prophet Muhammad emphasized the importance of knowledge in financial matters: "Whoever enters a market and says: 'There is none worthy of worship except Allah, He is alone without partner, to Him belongs the dominion and praise, He gives life and causes death, and He is living and does not die, in His Hand is all good, and He is over all things competent,' Allah will write for him a million good deeds, erase a million bad deeds, and raise him a million levels" (al-Tirmidhi, hadith no. 3428). This hadith, while specifically mentioning marketplace transactions, underscores the integration of spiritual consciousness with economic activities in Islam.

Financial literacy in the Islamic paradigm extends beyond conventional understanding to include knowledge of Shariah-compliant financial practices (Md Nawi et al., 2022) and the ethical dimensions of financial decisions. As Ahmad Suhami and Fairuz Syed Mohamad (2023) found that higher education levels correlated with better financial decision-making and lower bankruptcy rates, Islamic perspectives would emphasize that this education should include understanding of halal (permissible) and haram (forbidden) financial practices. The findings by Ating et al. (2024) linking low financial literacy to increased bankruptcy risk can be understood through the Islamic principle that wealth preservation requires both knowledge and ethical conduct. Imam Al-Ghazali's classic work, "Ihya Ulum al-Din" (Revival of Religious Sciences), dedicates significant portions to proper conduct in earning and spending wealth, suggesting that financial literacy in the Islamic framework encompasses both technical knowledge and ethical wisdom (Isa et al., 2024).

The integration of the *daruriyyat–hajiyyat–tahsiniyyat* hierarchy provides a decision-making heuristic that enhances resource allocation efficiency while reinforcing moral accountability. This multidimensional literacy model offers a more robust explanatory framework compared to conventional financial literacy models, which often neglect normative dimensions (Dusuki & Bouheraoua, 2011; Laldin & Furqani, 2013).

This classification daruriyyat (essentials), hajiyyat (complementary needs), and tahsiniyyat (luxuries) is grounded in the objectives of Islamic law (Maqasid al-Shariah) and provides a holistic framework for resource allocation that resonates with the realities of youth financial behavior. By applying this framework, individuals are encouraged to fulfill their basic necessities first, such as food, shelter, education, and healthcare, before allocating resources to non-essential or status-related spending. This not only ensures financial stability but also fosters contentment (qana'ah) and gratitude (shukr), two core Islamic virtues. Moreover, the integration of Islamic budgeting tools such as zakat planning, sadaqah allocation, and halal income monitoring can instill a sense of accountability and spiritual consciousness in daily financial decisions. These tools reinforce the idea that wealth is not merely a means for consumption but a divine test and responsibility, as indicated in the Quran: "Your wealth and your children are but a trial, and Allah has with Him a great reward" (Quran 64:15).

Educational initiatives that incorporate these Islamic financial management principles can equip youth with not only the technical skills for budgeting and saving but also the ethical foundations for responsible stewardship. Programs such as Islamic Financial Literacy Modules or Amanah-Based Budgeting Workshops could be developed in partnership with Islamic financial institutions and educational bodies. These initiatives should emphasize long-term goal setting, delayed gratification, and self-restraint qualities that are increasingly undermined by consumerist culture and peer influence. Findings by Ansar et al. (2023) on poor financial management among Malaysian youth highlight an urgent need for faith-integrated financial education that transcends technical instruction. By rooting financial behaviors in the spiritual framework of amanah and Maqasid al-Shariah, Islamic financial management offers a comprehensive solution that not only mitigates the risk of bankruptcy but also nurtures morally sound, socially responsible financial decision-makers.

4.3 *Financial Management in Light of Islamic Stewardship*

Poor financial management practices, identified as a significant theme across seven studies, directly relates to the Islamic concept of amanah (trustworthiness) and the notion that wealth is a trust from Allah that requires responsible stewardship. The Quran states: "Indeed, Allah commands you to render trusts to whom they are due" (Quran 4:58). In Islamic theology, all wealth ultimately belongs to Allah, with humans serving as temporary trustees who will be accountable for how they managed this trust.

Importantly, this failure should not be interpreted solely at the individual level but as indicative of a systemic gap in value-based financial socialisation. Empirical findings on weak financial discipline resonate with Islamic concepts of *mujahadah al-nafs* (self-discipline), suggesting that financial mismanagement is deeply intertwined with behavioural self-regulation (Chapra, 2008; Kamri & Daud, 2011).

The maqasid-based hierarchy of needs offers a corrective framework by structuring financial priorities, thereby reducing misallocation of resources and preventing debt accumulation. This provides a normative alternative to conventional budgeting models that lack ethical grounding.

The findings by Mohd Yusoff et al. (2024) and Jamlus Rafdi et al. (2015) highlighting weak financial management align with the Islamic emphasis on disciplined financial planning. The Prophet Muhammad encouraged financial planning, saying: "Plan as if you will live forever, but live as if you will die tomorrow" (attribution debated among scholars but widely cited in Islamic financial literature). This balanced approach encourages both long-term planning and awareness of life's transience. The finding by Hassan et al. (2021) regarding "lack of discipline regarding financial management" particularly resonate with the Islamic emphasis on self-discipline (mujahadah al-nafs). Financial discipline in the Islamic framework is not merely a practical virtue but a spiritual one, as it involves controlling desires and resisting impulsive spending. The Quran states: "And as for him who feared standing before his Lord and restrained himself from impulsive desires, Paradise will be his refuge" (Quran 79:40-41).

Islamic financial management also emphasizes prioritizing spending according to the hierarchy of needs (daruriyyat, hajiyyat, and tahsiniyyat). This framework could provide valuable guidance for addressing the poor financial management practices identified in the research, as it offers clear criteria for distinguishing between essential, complementary, and luxury expenditure (Muchtar et al., 2024).

In the context of youth bankruptcy, the neglect or misunderstanding of these Islamic financial principles becomes particularly concerning. Many young individuals fall into bankruptcy due to impulsive spending, misprioritisation of wants over needs, and lack of awareness of financial boundaries all of which contradict the Islamic ideals of moderation (wasatiyyah) and accountability (mas'uliyyah). The prevalence of consumerist culture, peer pressure, and the desire for immediate gratification further exacerbate these behaviors, often leading to unmanageable debt at a young age.

Islamic financial stewardship teaches that managing wealth responsibly is not only a worldly necessity but a religious obligation. Youths who disregard this amanah risk not only financial instability but also spiritual consequences. The concept of hisab (accountability in the Hereafter) reinforces the importance of being prudent and honest in all financial dealings, including avoiding debt without necessity. The Prophet Muhammad himself expressed concern for those who die in debt, highlighting its seriousness in both this life and the next.

Therefore, incorporating Islamic financial ethics into youth financial education and bankruptcy prevention programs could serve as a corrective measure. Teaching concepts such as delayed gratification, prioritization of needs according to maqasid al-shariah, and viewing wealth as a trust may cultivate a sense of responsibility that is currently lacking. When financial literacy is grounded in spiritual values, it can help shift the mindset from one of short-term consumption to long-term stewardship, potentially reducing the incidence of youth bankruptcy.

4.4 *Credit Card Usage and the Prohibition of Riba*

The identification of problematic credit card usage as a significant factor in youth bankruptcy by six studies directly intersects with the Islamic prohibition of *riba* (interest). Conventional credit cards typically operate on an interest-based model that is fundamentally incompatible with Islamic financial principles. The Quran's prohibition of *riba* is unequivocal: "O you who have believed, fear Allah and give up what remains [due to you] of *riba*, if you are believers" (Quran 2:278). The finding by Jamlus Rafdi et al. (2015) that many young adults make only minimum credit card payments, resulting in accumulating interest, highlights exactly the type of debt trap that Islamic financial principles aim to prevent. The Prophet Muhammad emphasized the seriousness of interest-based transactions: "A dirham of *riba* knowingly taken by a man is worse than committing adultery thirty-six times" (al-Daraqutni, hadith no. 2816; al-Shaybani, hadith no. 22007). This hadith underscores the gravity with which Islam views interest-based transactions, including conventional credit card debt.

May 2026 |Vol. 31 No.2 | ISSN: 2232-1047 | eISSN: 0127-8886

From a critical perspective, the persistence of interest-based borrowing despite the availability of Shariah-compliant alternatives reveals a significant behavioural-intent gap. This gap highlights limitations in current Islamic financial outreach and suggests that accessibility alone is insufficient without behavioural alignment and awareness (Butt et al., 2011).

Furthermore, the dominance of minimum payment behaviour reflects classic debt-trap dynamics, reinforcing the relevance of Islamic prohibitions as preventive mechanisms rather than merely theological constraints (Mian & Sufi, 2014).

Ahmad Suhami and Fairuz Syed Mohamad (2023) identification of credit card usage as a significant factor in youth bankruptcy points to the need for Shariah-compliant alternatives. Islamic banks in Malaysia have developed Shariah-compliant credit cards based on concepts such as ujrah (fee-based), qard (interest-free loan), and tawarruq (commodity murabahah) to provide alternatives that avoid explicit interest (Mohd Noor & Mohd Azli, 2010). However, the research findings suggest that these alternatives may not be sufficiently accessible to or understood by Malaysian youth. The empirical findings regarding credit card mismanagement suggest a critical need for education about the Islamic stance on interest-based debt and available Shariah-compliant alternatives. This education should include not only theoretical knowledge about the prohibition of *riba* but also practical guidance on using Islamic financial products responsibly.

Qard Hasan programs offer interest-free financing specifically designed for essential needs like education and emergency expenses. These programs exemplify the Islamic principle of brotherhood and mutual assistance (ta'awun) while providing practical solutions to pressing financial challenges facing youth. According to Yusoff and Mat Isa (2016), educational funding through Qard Hasan arrangements showed repayment rates exceeding 92%, significantly higher than conventional student loans. These programs typically incorporate structured repayment plans and financial counseling components that ensure financial discipline. Research by Abd Rahim and Puteh Tajudeen (2020) demonstrated that recipients of Qard Hasan financing were 40% less likely to seek high-interest short-term loans during financial emergencies compared to their peers who did not have access to such programs. The educational component of these programs contributes to long-term financial literacy, with Abdul Rahman (2020), noting that participants showed improved financial knowledge scores after program completion.

Nevertheless, scalability challenges particularly institutional sustainability and governance must be critically addressed. This suggests the need for hybrid financial models integrating Islamic social finance with formal banking systems to ensure long-term viability (Thaidi et al., 2023).

These findings collectively underscore the urgent need to bridge the gap between Islamic financial principles and the lived financial realities of Muslim youth in Malaysia. Although Shariah-compliant credit products and Qard Hasan initiatives exist, their effectiveness is limited if they are not widely promoted, understood, or made accessible to the youth population particularly those most vulnerable to bankruptcy (Abdul Rahman et al., 2018). The high rates of credit card misuse and minimal awareness of alternative Islamic financing mechanisms suggest a shortfall not just in product availability, but in the financial education and outreach efforts that accompany them. A critical component of any long-term solution must therefore involve the institutionalization of Islamic financial education across multiple levels. Schools, universities, religious institutions, and even government-sponsored youth programs should integrate modules that explain not only the prohibition of *riba*, but also the rationale behind itemising the social justice, ethical, and psychological harms caused by interest-based systems. Moreover, young people must be equipped with the knowledge and skills to evaluate financial products from both a Shariah and practical perspective, ensuring they make informed choices aligned with their faith and financial capacity.

Additionally, policymakers and Islamic financial institutions should collaborate to enhance the visibility, accessibility, and user-friendliness of Islamic financial tools. Simplifying the application process, offering digital onboarding for Shariah-compliant credit cards, and using social media campaigns to raise awareness can all help extend the reach of these solutions to younger audiences. Financial institutions may also consider incorporating incentives for responsible usage, such as waiving annual fees or offering rewards for timely repayment, to encourage disciplined behavior among youth. In essence, the convergence of empirical evidence and Islamic ethical guidance presents a powerful opportunity to reframe financial recovery and literacy strategies. By grounding these interventions in the Islamic moral economy, which prioritizes equity, accountability, and compassion, Malaysia can not only address the root causes of youth bankruptcy but also foster a generation of financially resilient and ethically conscious individuals. The solution lies not merely in rejecting *riba*, but in actively promoting viable, principled alternatives that reflect both spiritual and economic well-being.

A critical tension identified in this analysis is the disconnect between the availability of Shariah-compliant financial products and the actual behavior of Malaysian youth. Despite the prohibition of *riba* and the existence of alternative credit instruments, many young adults remain trapped in conventional debt cycles due to a lack of awareness or understanding of these alternatives. This suggests that religious knowledge alone is insufficient; it must be bridged with practical, culturally resonant financial education that emphasizes the spiritual and social gravity of interest-based debt.

4.5 *Financial Commitments and Islamic Debt Ethics*

The research finding that excessive financial commitments significantly contribute to youth bankruptcy aligns with Islamic teachings on debt as a serious obligation that should be approached with caution. The Prophet Muhammad regularly sought refuge from debt in his supplications: "O Allah, I seek refuge with You from sin and debt" (al-Nasa'i, hadith no. 5454). When asked why he associated debt with sin, he replied: "When a person gets into debt, he speaks and tells lies, and he makes promises and breaks them" (al-Bukhari, hadith no. 2397). This hadith highlights Islam's recognition of how debt can lead to ethical compromises and spiritual harm.

Critically, the findings demonstrate that youth debt behaviour reflects a misalignment between perceived needs and actual necessities, reinforcing the concept of "priority inversion." This misalignment directly contradicts maqasid-based consumption principles and highlights the need for structured financial decision frameworks.

According to Jamlus Rafdi et al. (2015), specific examples of excessive financial commitments such as purchasing vehicles without deposits, acquiring homes beyond one's means through maximum loans, and securing personal loans for wedding ceremonies reflect behaviors that contradict Islamic principles of debt prudence. Islam permits debt for genuine needs but discourages unnecessary debt, particularly for non-essential consumption (Az-Zuhaili, 1985). Faizal and Mohd Ashhari (2015) provide empirical evidence that assuming financial commitments beyond one's repayment capacity significantly elevates bankruptcy risk, a finding that aligns with the Islamic ethical framework on debt management. The Prophet Muhammad said: "The soul of the believer is held back by his debt until it is paid off" (al-Tirmidhi, hadith no. 1078), indicating the serious spiritual implications of unresolved debt in Islamic thought. Islamic financial ethics emphasize the importance of determining genuine need before incurring debt and ensuring the ability to repay. This aligns with the empirical findings suggesting that excessive financial commitments, particularly for non-essential consumption, significantly contribute to youth bankruptcy in Malaysia.

These insights suggest that Islamic financial principles can play a pivotal role in shaping healthier financial attitudes among youth. The emphasis on intentionality, accountability, and moderation in Islamic finance offers a value-based framework that not only addresses financial behaviors but also nurtures spiritual consciousness. Youth who internalize these principles are more likely to evaluate the necessity of their financial decisions, avoid debt-driven consumption, and prioritize long-term stability over short-term gratification.

Furthermore, Islamic teachings advocate for comprehensive financial planning (tadbir al-mal) and discourage reliance on uncertain income sources to meet fixed obligations. This aligns with the need to educate young people on the risks of over-leveraging and the importance of financial preparedness, especially in navigating life milestones such as education, employment, marriage, and home ownership. Programs that integrate both practical financial literacy and Islamic ethical values can therefore empower youth to make responsible financial choices that align with their faith and future goals.
Beyond the individual level, the family, community, and institutional structures also have a crucial role in promoting Islamic financial responsibility. Parents, educators, religious leaders, and policymakers should collaborate to instill these values early, through school curricula, mosque-based education, premarital counseling, and national awareness campaigns. By normalizing conversations around financial discipline and Islamic debt ethics, youth can be guided away from risky financial behaviors that often lead to insolvency.

4.6 *Financial Education through an Islamic Lens*

Findings by Tahir et al. (2022) and Mohd Yusoff et al. (2024), which identify inadequate financial literacy as a primary driver of youth bankruptcy, resonate with the Islamic mandate that prioritizes education as a religious duty. This is grounded in the Prophetic tradition: "*Seeking knowledge is an obligation upon every Muslim*" (al-Qazwini, hadith no. 224), a principle that encompasses the financial literacy requisite for Shariah-compliant wealth management. Furthermore, the correlation between limited financial education and bankruptcy risk highlighted by Abdul Rahim et al. (2022) underscores a critical pedagogical gap that could be bridged through Islamic financial education. Within this framework, financial literacy must transcend technical competency to integrate ethical dimensions, including the discernment of halal and haram transactions, the spiritual ramifications of debt, and the fiduciary social responsibilities of wealth. Ultimately, these empirical insights suggest that existing financial education frameworks may be insufficient for Malaysian youth, particularly in failing to synthesize technical knowledge with the ethical-religious values necessary to foster responsible financial conduct. Islamic financial education could bridge this gap by providing a comprehensive framework that integrates technical knowledge with ethical principles derived from Islamic teachings.

Existing financial education frameworks are largely technocratic and fail to integrate ethical and spiritual dimensions. This limitation reduces their effectiveness in shaping long-term behaviour. Islamic financial education offers a transformative alternative by embedding moral accountability, thereby aligning financial decision-making with both worldly and spiritual outcomes (Aji et al., 2024).

This integrative model represents a paradigm shift from knowledge transmission to value formation, positioning financial literacy as a tool for ethical transformation rather than merely economic optimisation.

The comprehensive Islamic financial education approach represents a holistic framework that goes beyond conventional financial literacy by integrating technical knowledge with ethical principles derived from Islamic teachings. This dual focus creates a value-based financial education system that addresses both practical skills and moral responsibilities (Abdul Rahim et al., 2022).

At its core, this approach emphasizes understanding the fundamental Islamic financial principles that distinguish it from conventional finance. Students learn about the prohibition of *riba* (interest), which is considered exploitative in Islamic thought, along with the avoidance of gharar (excessive uncertainty) and maysir (gambling-like speculation). These prohibitions are explained not merely as restrictions but as protective measures that promote financial stability and social justice. The education also covers positive principles such as risk-sharing, asset-backing of transactions, and the importance of real economic activity rather than purely financial speculation (Zaman, 2001).

Beyond theoretical concepts, Islamic financial education provides practical skills for daily financial management. This includes budgeting techniques that align with Islamic values, distinguishing between essential needs (dharuriyyat) and desires (tahsiniyyat), and developing saving habits that reflect the Islamic emphasis on moderation and future planning. Students learn to evaluate financial decisions not only based on economic benefit but also ethical impact and spiritual alignment (Sophia & Ryandono, 2018).

A distinctive element of this approach is its emphasis on the Islamic perspective on debt. While conventional financial education often normalizes debt as a financial tool, Islamic financial education presents debt as a serious responsibility that should be undertaken only for genuine needs, with a strong emphasis on timely repayment (Aji et al., 2024). Islamic teachings regarding the gravity of unpaid debt are highlighted, helping young people develop a more cautious and responsible attitude toward financial obligations.

The education also provides practical knowledge about available Shariah-compliant financial products and services, teaching youth how to identify truly Shariah-compliant options and use them responsibly. This includes understanding the structures of products like murabaha (cost-plus financing), ijara (leasing), and musharaka (partnership financing), and how they differ from their conventional counterparts.

For effective implementation, this educational approach employs diverse delivery methods, from formal classroom settings to community workshops, online platforms, and mentoring programs. The most successful programs involve collaboration between financial experts, religious scholars, and educators to ensure both technical accuracy and authentic representation of Islamic principles, making financial education not just about wealth management but about living in accordance with one's faith values.

5. LIMITATIONS AND FUTURE RESEARCH

This systematic analysis is limited by the relatively small sample size of 10 final synthesized studies, which may not fully represent the evolving financial landscape of all Malaysian youth sub-demographics. Additionally, the qualitative nature of this review provides a conceptual link rather than empirical correlation. Future research should utilize quantitative methodologies to measure the direct impact of "Shariah Financial Literacy" on debt-to-income ratios among Gen Z in Malaysia. Investigating the role of social media influencers in promoting Islamic financial ethics could also offer contemporary insights into mitigating conspicuous consumption.

6. CONCLUSION

Youth bankruptcy in Malaysia has become an increasingly pressing issue, with far-reaching consequences for individuals, families, and society. This phenomenon is largely fuelled by a combination of poor financial literacy, impulsive consumer behaviour, easy access to credit, peer pressure, and a lack of long-term financial planning. Many young individuals fall into the trap of living beyond their means, taking on debts they cannot repay, and ultimately facing financial ruin early in life. This trend not only hinders their ability to achieve financial independence and stability but also imposes a broader socio-economic burden on the country, including rising default rates, loss of productivity, and increased demand for social support systems.

Critically, this study demonstrates that youth bankruptcy should not be interpreted solely as a technical failure of financial knowledge, but rather as a multidimensional problem involving behavioural, structural, and ethical deficiencies. This finding reinforces the need to move beyond conventional financial literacy models toward a more integrative and value-based framework that incorporates moral reasoning and long-term accountability (Lusardi & Mitchell, 2014; Thaler, 2016).

Addressing this issue requires a comprehensive and multifaceted approach. One of the most effective strategies is to incorporate financial education into national development efforts, beginning as early as primary school. Financial literacy programs must be practical, accessible, and culturally relevant, equipping young people with essential skills in budgeting, saving, responsible borrowing, and long-term planning. Importantly, this study argues that financial literacy in the Malaysian context must extend beyond technical competence to include ethical and spiritual dimensions. The integration of Islamic financial principles provides a normative framework that aligns financial behaviour with values such as accountability (*amanah*), moderation (*wasatiyyah*), and wealth preservation (*hifz al-mal*), thereby enhancing both behavioural discipline and financial resilience (Chapra, 2008; Kamri & Daud, 2011).

Islamic finance promotes responsible financial behavior based on core tenets such as the prohibition of *riba* (interest), avoidance of gharar (excessive uncertainty), and an emphasis on ethical investments and risk-sharing. These principles encourage individuals to engage in honest, productive economic activity while avoiding exploitative and speculative financial practices. By aligning personal financial management with moral and religious values, Islamic finance not only guides youth toward better money management but also fosters a sense of accountability and spiritual well-being. From a policy perspective, this implies that financial education reforms should incorporate faith-based and value-driven components, particularly in Muslim-majority contexts. Collaboration between government agencies, financial institutions, educational bodies, and religious organisations is essential to ensure the effective dissemination of these principles through structured programmes, public awareness campaigns, and accessible Shariah-compliant financial solutions (Ahmed, 2014; Hassan & Lewis, 2007). Furthermore, targeted interventions such as youth financial counselling, digital financial education platforms, and expanded access to Islamic financial products can significantly contribute to reducing bankruptcy risks.

Ultimately, this study contributes to the literature by proposing a paradigm shift from a purely economic understanding of financial distress toward a holistic model that integrates socioeconomic realities with ethical and spiritual dimensions. This approach offers a more sustainable and culturally grounded solution to youth bankruptcy, particularly in Malaysia's socio-religious context.

In conclusion, the integration of Islamic financial principles with comprehensive financial literacy education offers a sustainable and culturally appropriate solution to the growing issue of youth bankruptcy. By equipping the younger generation with the right knowledge, values, and tools, Malaysia can build a financially responsible society that is resilient, ethical, and aligned with both national development goals and Islamic teachings.

7. ACKNOWLEDGEMENT

This research was generously supported through the Malaysia Ministry of Higher Education's FRGS grant with code FRGS/1/2023/SS02/UITM/02/7, underscoring the government's commitment to advancing academic excellence. Additionally, Universiti Teknologi MARA provided vital resources and institutional backing, facilitating the successful completion of this study.

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