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Financial Resilience as a Mediator of the Relationship between Cost of Living, Financial Literacy, Debt Management and Financial Well-Being among M40 Households in Malaysia

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Abstract

This conceptual paper develops a model in which cost of living, financial literacy, and debt management are theorized as antecedents of financial well-being among M40 households, with financial resilience positioned as the mediating mechanism linking these antecedents to the ultimate outcome. This study develops eights propositions describing the expected direct and indirect relationships among these constructs, which derived from Brüggen's conceptualization of financial well-being, Salignac's multidimensional framework of financial resilience and a substantially recent body of literature on financial literacy and household debt behavior. This study is expected to highlight the negative effect of cost of living on financial resilience and through it, on financial well-being. Whereas financial literacy and debt management are expected to exert positive effects on resilience and well-being. As a conceptual contribution, this paper does not report primary data collection. It synthesizes the literature into a coherent, testable framework and proposes a methodology for future empirical validation among Malaysian M40 households. The paper concludes by discussing the theoretical contribution of this model, its practical relevance to household financial planning together with the limitations.

Keywords: Financial Well-Being, Financial Resilience, Cost of Living, Financial Literacy, Debt Management, M40 Households

Introduction

Malaysia's income classification system divides households into three broad brackets. The B40, signifying the lower 40%, the M40, occupying the intermediate level of 40% and the T20, comprising the upper 20%. The Household Income and Expenditure Survey 2024 which was conducted twice a year classify M40 households earn between RM5,860 and RM12,679 per month that places them above the threshold for most poverty-targeted assistance programs but below the income level enjoyed by the T20 (Department of Statistics Malaysia, 2024).

The finding from Household Income and Expenditure Survey 2024 highlights that compared to 2022, the average monthly household spending increased by 3.9 percent to RM5,566 in 2024. Whereas housing, utilities, and fuel made up 23.5% of total monthly expenditure, while food prices have continued to rise faster than wages since 2020. The combined effects of these factors have weakened the real purchasing power of M40 households, despite relatively modest growth in nominal income. These increases in the cost of living are further escalated by high household debt obligation. Household debt among the Malaysian were observed at RM1.53 trillion in 2023 (84.2 percent of gross domestic product). It is among the uppermost propositions in the region with mortgages and vehicle financing constituting the largest components of debt commitments among M40 households (Bank Negara Malaysia, 2024). Moreover, national financial literacy remains relatively low. A survey on the financial literacy by OECD highlighted that only 36 percent of Malaysians comprehend the fundamental financial principles such as interest rates, inflation and risk diversification, highlighting its relatively low level compared with the global average of 42 percent. Rising living costs, high household debt, and limited financial literacy have contributed to concerns that the M40 is becoming a shrinking middle, with households facing growing financial pressures (Mat Nawi et al., 2025).

Financial well-being is the extent to which individuals or households perceive themselves as financially capable of fulfilling their current and future obligations while sustaining an acceptable quality of life (Brüggen et al., 2017). It represents a crucial dimension as middle-income households that face financial constraints may struggle to maintain consumption, accumulate retirement savings, and withstand unexpected financial shocks without experiencing additional financial difficulties.

Problem Statement

Prior research has primarily investigated cost of living, financial literacy and debt management as important determinants of financial outcomes among Malaysian households, with limited attention to their interconnected effects (Sabri et al., 2024; Jaffar et al., 2024; Hamid et al., 2023). First, few studies have combined these three predictors into a single model. Existing Malaysian studies have generally examined financial literacy, financial behavior, financial stress and other individual-level factors as determinants of financial well-being, rather than simultaneously considering cost of living, financial literacy and debt management within an integrated framework (Sabri et al., 2024; Jaffar et al., 2024). Second, limited research has further investigated the mediating effect of financial resilience on the factors influencing financial well-being among M40 households, which is defined as a household's ability to cope with, manage, and overcome financial disruptions (Salignac et al., 2019; Hamid et al., 2023). Recent evidence indicates that financial literacy is associated with greater financial resilience, as financially knowledgeable individuals are better positioned to manage financial shortfalls, maintain financial cushions and respond to financial shocks (Hamid et al., 2023; Liu et al., 2024). Similarly, empirical evidence shows that financial literacy can enhance household financial resilience by strengthening risk management and the capacity to recover from financial disturbances (Liu et al., 2024). Existing empirical evidence from Malaysia on financial well-being has mainly directed attention towards B40 and other financially vulnerable groups, with comparatively less attention given to middle-income households (Chowdhury et al., 2021; Jaffar et al., 2024). For example, Jaffar et al. (2024) found that financial literacy dimensions were significantly associated with financial well-being

among low-income Malaysian women, while Sabri et al. (2024) demonstrated that financial behavior plays an important role in explaining financial well-being among young Malaysian adults. While studies involving the general population often overlook the distinct financial circumstances of M40 households, these households may face increasing living costs and financial commitments that can place pressure on their financial well-being and ability to absorb financial shocks (Hamid et al., 2023; Sabri et al., 2024). Therefore, this study tries to connect the gap by establishing a conceptual model specifically on Malaysian M40 households, in which this model outlines financial resilience as a mediating factor through which cost of living, financial literacy and debt management may influence financial well-being. Reflecting the study's research scope, the following objectives are established: 1) to examine the direct influence of cost of living, financial literacy and debt management on financial well-being among Malaysian M40 households, 2) to analyze the direct influence of cost of living, financial literacy and debt management on financial resilience among Malaysian M40 households, 3) to analyze the direct influence of financial resilience on financial well-being among Malaysian M40 households, and 4) to analyze the mediating effect of financial resilience on factors influencing financial well-being among Malaysian M40 households.

Significance of Study

The study further enriches to the behavioral finance literature by focusing specifically on M40 households, whose distinct financial circumstances, characterized by limited access to targeted assistance and inadequate financial buffers, have received comparatively less empirical attention than those of B40 households. For policymakers and financial education providers, the proposed framework provides an initial theory-based rationale for recognizing financial resilience as an important mechanism in enhancing the financial well-being of M40 households, rather than financial well-being directly, as an intermediate target of financial education and debt counselling interventions aimed at the middle-income population.

Literature Review

Financial Well-Being: Definition and Conceptualization

Brüggen et al. (2017) measure financial well-being as households' perceived effort to preserve the current and expected quality of living while enjoying a sense of financial freedom. Their conceptualization distinguishes financial well-being from conceptually related construct such as financial literacy, which reflects financial knowledge, and financial satisfaction, which reflects an individual's subjective evaluation of their financial circumstances. Rather, financial well-being represents a broader condition that encompasses both the ability to meet financial obligations and an individual's perceived level of financial security and control over their financial circumstances. Netemeyer et al. (2018) further operationalized financial well-being through current money management stress and anticipated financial sustainability. These components are shaped by financial behaviors, financial knowledge, and broader economic conditions. Likewise, the Consumer Financial Protection Bureau (2015) classifies four key dimensions of financial well-being: 1) effective control of daily finances, 2) the capability to withstand unexpected financial pressures, 3) progress towards financial objectives, 4) and the financial autonomy to make choices that facilitate to a satisfactory quality of life. Recent research continues to examine financial well-being as a multidimensional outcome associated with financial literacy, financial behavior, and financial capability (Sabri et al., 2024; Jaffar et al., 2024; Wan Nawang, 2025).

In the Malaysia perspective, Mahdzan et al. (2019) identified important variations in subjective financial well-being across income levels, with M40 households highlighting distinct levels of financial stress and financial confidence compared with lower and higher income groups. The results provide empirical evidence for examining the M40 as a distinct population rather than incorporating them within broad and heterogeneous household samples. Similarly, Sarip et al. (2024), in research involving employees in a Malaysian manufacturing firm, found a significant association between financial literacy and financial well-being, highlighting the relevance of financial literacy as a potential antecedent in the proposed model. Recent Malaysian studies further provide evidence linking financial literacy and financial behavior with financial well-being among different Malaysian populations (Jaffar et al., 2024; Sabri et al., 2024; Wan Nawang, 2025).

Financial Resilience: Definition and Multidimensional Structure

Financial resilience refers to households' potential to absorb, cope and overcome from adverse financial disruptions such as job loss, sudden healthcare costs or sudden declines in income (Salignac et al., 2019). Salignac et al. (2019) conceptualized a multidimensional framework of financial resilience that encompasses economic resources, including savings, income and assets. The framework also incorporates access to financial products and services, such as formal banking and credit, as well as financial knowledge and behavior. In addition, social capital, specifically support networks available during times of financial need, represents another important dimension. The authors argue that financial resilience cannot be reduced to any single dimension but instead emerges from the interaction of these dimensions. Within the broader context of economic development Hallegatte (2014), similarly conceptualizes resilience as the capacity of a system, whether a household, community, or economy, to restore its functioning following a shock, an approach consistent with the household-level conceptualization adopted in this paper.

Recent empirical studies in financial behavior recognize financial resilience as a mediator connecting financial ability and financial well-being. Klapper and Lusardi (2020), demonstrated financial literacy to be significantly connected with financial resilience, which operationalized as an individual's potential to secure emergency funds when needed. Their findings further indicated financial resilience associated with broader indicators of financial well-being. Another study by Kass-Hanna et al. (2022), which examined households in South Asia and Sub-Saharan Africa, similarly demonstrated that both financial and digital literacy contributed to financial resilience among historically underserved populations. Sakyi-Nyarko et al. (2022) highlighted those households who have wider reach to formal financial services and practicing consistent saving typically exhibit stronger degree of financial resilience, highlighting the significance of financial literacy and prudent debt management in Enhancing households' capacity to manage finances. Meanwhile, evidence from Kulshreshtha et al. (2023) indicates that financial resilience serves as a significant mediating role in the relationship between income volatility and financial well-being among Indian adults. Additionally, Curry (2025) identified financial resilience as a crucial mechanism through which financial literacy is associated with emotional well-being. Cumulatively, these results imply that financial resilience may function as an underlying mechanism linking financial capability to financial well-being, extending its role beyond that of a direct predictor of financial outcomes.

Cost of Living

Cost of living is the compulsory financial resources to uphold the standard of living, including expenditure on housing, food, transportation, utilities and other essential goods and services (Jacobs et al., 2014). Rising cost of living constrains households' disposable income and limit their capacity to accumulate precautionary savings, both represent the important components of financial resilience under Salignac et al.'s (2019) economic-resources dimension. In the Malaysian context, cost of housing, utilities, gas and other fuels encompassed for 23.5% of average monthly household consumption expenditure in 2024 (DOSM, 2024). Moreover, Bank Negara Malaysia (2026) reported that food prices had increased faster than wages over recent years, while overall consumer prices rose by 9.3% between 2019 and 2024 compared with a 7.2% increase in nominal wages per worker. These cost pressures may reduce the financial buffers available to M40 households, particularly when they encounter unexpected income disruptions. The above statement is supported by Mat Nawi et al. (2025), in their conceptual analysis of M40 financial vulnerability, identified rising living costs as a structural pressure that can weaken the financial buffers of middle-income Malaysian households, particularly in the context of stagnant real wage growth and increasing household debt. Because cost of living operates primarily by consuming the resources that would otherwise be available for saving, debt repayment, or emergency provisioning, this paper proposes that its effect on financial well-being is likely to be substantially channeled through its erosive effect on financial resilience, rather than operating as an independent, direct determinant of subjective financial well-being in its own right.

Proposition 1 (P1): Cost of living is negatively associated with financial resilience among M40 households.

Proposition 2 (P2): Financial resilience mediates the relationship between cost of living and financial well-being, such that the effect of cost of living on financial well-being operates substantially through its impact on financial resilience.

Financial Literacy

Financial literacy is the knowledge and skill needed to make informed and effective decisions regarding the use and management of money (Huston, 2010). Huston's (2010) influential review distinguished financial literacy from financial knowledge alone, arguing that literacy additionally requires the competence to utilize that knowledge in actual financial decision-making. Lusardi and Mitchell (2014), in a widely cited review of the financial literacy literature, documented that financial literacy is robustly correlated with sound financial decision-making across diverse dimensions, including saving, borrowing, and investment behavior, and that financial illiteracy is disproportionately concentrated among lower-income and less-educated populations, though by no means absent among middle-income groups. Fernandes et al. (2014), in a meta-analysis of financial literacy interventions, found that financial education programmes produced only modest and often short-lived improvements in financial behavior, highlighting that the association between financial literacy and downstream financial outcomes may be more complex, and more contingent on contextual and structural factors, than a simple knowledge-to-behavior pipeline would imply, a nuance this paper's mediated model is intended to help capture.

Within the Malaysian perspectives, Sarip et al. (2024) found a notable positive relationship between financial literacy and financial well-being among employees of a Malaysian manufacturing firm. In a different national context van Rooij et al. (2011) demonstrated that greater financial literacy was associated with stock market participation and financial planning behavior. This behavior may enhance households' ability to accumulate financial resources and engage with formal financial products, which are recognized by Salignac et al. (2019) as key dimensions of financial resilience.

Proposition 3 (P3): Financial literacy is positively associated with financial resilience among M40 households.
Proposition 4 (P4): Financial resilience mediates the relationship between financial literacy and financial well-being, such that the effect of financial literacy on financial well-being operates substantially through its impact on financial resilience.

Debt Management
It refers to the financial discipline undertaken by households to manage borrowing, credit utilization and repayment obligations include maintaining debt-to-income levels, making on time repayments and avoiding excessive dependence on high-cost credit facilities (Abdullah et al. 2019). Gathergood (2012) highlighted that low self-control and low financial literacy were linked to consumer over-indebtedness. Similarly, Xiao and Kim (2022) found that debt delinquency was linked to higher levels of financial stress, although this relationship was weaker among individuals with greater financial capability. Sweet et al. (2013) highlighted the association between household financial liabilities and poorer mental and physical health outcomes, with chronic financial stress constituting as a potential pathway connecting debt to these adverse effects. These findings underscore the significance of effective debt management in improving financial resilience while also promoting broader household well-being.

In Malaysia perspective, Liew et al. (2025) applied the Theory of Planned Behavior to examine young adults' willingness to take up household debt. The findings highlighted that financial literacy significantly influenced attitudes towards debt, hence shaped debt-related intentions. In a related Malaysian study, Rani et al. (2018) identified considerable levels of financial stress associated with debt among public sector employees. Recent empirical findings further evidence the linkages between financial capability and household financial resilience. Hamid et al. (2023), using data from 3,395 Malaysian respondents, found greater financial knowledge and financial inclusion associated with the extent to enhance the likelihood of financial resilience. Similarly, Liew et al. (2025) identified financial literacy, attitude towards debt and income level to significantly associated to debt management practices among Malaysian youth.

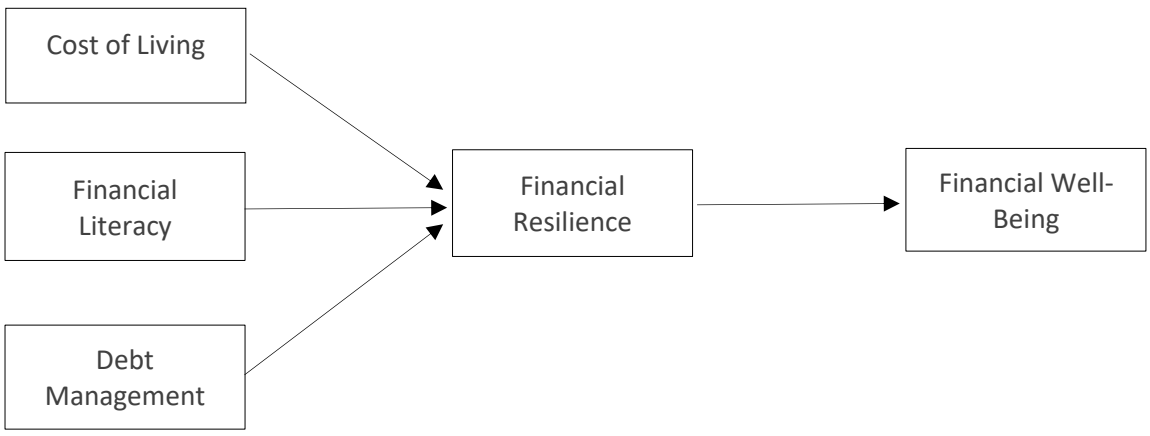
Mortgage and vehicle financing constitute the largest components of M40 household debt (Bank Negara Malaysia, 2024), by which an effective debt management is significantly important for maintaining household financial stability. In this study, debt management is conceptualized as the household's ability to meet debt-servicing obligations without compromising its capacity to withstand additional financial shocks. Whereas effective debt management is conceptualized as enhancing financial resilience directly and indirectly through financial resilience, thereby improving financial well-being.

Proposition 5 (P5): Debt management is positively associated with financial resilience among M40 households.
Proposition 6 (P6): Financial resilience mediates the relationship between debt management and financial well-being, such that the effect of debt management on financial well-being operates substantially through its impact on financial resilience.

Financial Resilience as the Central Mediating Mechanism
This study conceptualizes financial resilience as a central psychological and material buffer that determines how households respond to the combined pressures and resources associated with cost of living, financial literacy, and debt management, thereby shaping their overall financial well-being. This conceptualization is aligned with resilience literature, which views resilience as a capacity that enables households to absorb financial shocks, adapt to adverse conditions, and maintain or restore financial stability (Hallegatte, 2014; Salignac et al., 2019; OECD, 2024). Recent empirical evidence provides further support for this perspective, indicating that financial literacy can strengthen household financial resilience through accumulation of financial assets and risk-mitigation strategies. Evidence from Liu and Chen (2025) indicates that financial resilience mediates the association between family economic adversity and multiple well-being outcomes, including psychological distress, subjective happiness, and life satisfaction. This perspective highlights financial resilience as an adaptive household capacity that supports resource mobilization, adjustment to financial pressures, and the management of adverse shocks while preserving financial stability.
Proposition 7 (P7): Financial resilience is positively associated with financial well-being among M40 households.

Proposition 8 (P8): The combined effect of cost of living, financial literacy, and debt management on financial well-being, once financial resilience is accounted for as a mediating mechanism, is expected to substantially exceed the explanatory power of any model that omits financial resilience and considers these three antecedents as direct predictors alone.

Proposed Conceptual Model
Figure 1 illustrates the proposed conceptual model in this paper. Cost of living, financial literacy, and debt management are positioned as antecedents of financial resilience, which in turn is theorized to shape financial well-being among M40 households.



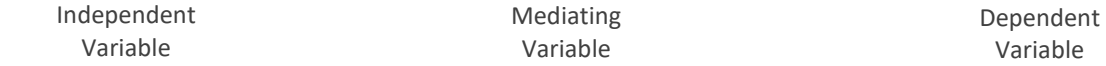


Figure 1. Proposed conceptual model linking cost of living, financial literacy, and debt management to financial well-being through financial resilience.

Table 1 summarizes the five core constructs of the proposed model, their conceptual dimensions, and representative sources from the literature reviewed above.

Table 1
Core Constructs of the Proposed Conceptual Model

Construct	Core conceptual dimensions	Representative sources
Cost of Living (COL)	Housing, food, transport, and utility expenditure burden relative to income	Jacobs et al. (2014); Mat Nawi et al. (2025)
Financial Literacy (FL)	Financial knowledge, skills, and confidence in decision-making	Huston (2010); Lusardi & Mitchell (2014)
Debt Management (DM)	Repayment discipline, credit use, debt-to-income awareness	Abdullah et al. (2019); Gathergood (2012)
Financial Resilience (FR)	Capacity to absorb, cope with, and recover from financial shocks	Salignac et al. (2019, 2022); Hallegatte (2014)
Financial Well-Being (FWB)	Perceived ability to meet current and future financial obligations	Brüggen et al. (2017); Netemeyer et al. (2018)

Table 2 summarizes the eight propositions developed in this paper, together with their conceptual rationale and anticipated direction of effect.

Table 2
Summary of Propositions

Proposition	Relationship	Anticipated direction	Conceptual rationale
P1	Cost of Living to Financial Resilience	Negative	Erodes disposable income and savings capacity (Salignac et al., 2019; Mat Nawi et al., 2025)
P2	Financial Resilience mediates Cost of Living to Financial Well-Being	Mediated	Resource-erosion channel operates through resilience
P3	Financial Literacy to Financial Resilience	Positive	Enables informed saving, borrowing, and planning decisions (Huston, 2010; Klapper & Lusardi, 2020)
P4	Financial Resilience mediates Financial Literacy to Financial Well-Being	Mediated	Knowledge-to-outcome pathway operates through resilience
P5	Debt Management to Financial Resilience	Positive	Reduces debt-servicing strain and preserves buffer capacity (Gathergood, 2012; Xiao & Kim, 2022)
P6	Financial Resilience mediates Debt	Mediated	Debt-discipline pathway operates through resilience

Proposition	Relationship	Anticipated direction	Conceptual rationale
	Management to Financial Well-Being		
P7	Financial Resilience to Financial Well-Being	Positive	Resilience is the proximal buffer shaping perceived financial security (Brüggen et al., 2017)
P8	Full mediated model vs. direct-effects-only model	Mediated model superior	Resilience captures the intervening capacity omitted by a direct-effects account

Positioning the Model Against Related Frameworks

Table 3 highlights the proposed model with selected recent studies on financial well-being, financial resilience, and their related antecedents. The comparison shows the consistency of the proposed relationships with existing empirical evidence while highlighting the study's contribution through the integration of these factors within the specific context of M40 households.

Table 3
Comparison with Selected Related Studies

Study	Context	Constructs examined	Relevant finding
Klapper & Lusardi (2020)	Cross-country	Financial literacy, financial resilience	Financial literacy predicts resilience (ability to raise emergency funds)
Kass-Hanna et al. (2022)	South Asia, Sub-Saharan Africa	Financial and digital literacy, resilience	Literacy strengthens resilience among underserved populations
Mahdzan et al. (2019)	Malaysia, three income groups	Subjective financial well-being	Well-being varies systematically by income group
Sarip et al. (2024)	Malaysian manufacturing employees	Financial literacy, financial well-being	Significant positive correlation
Mat Nawi et al. (2025)	Malaysian M40 households	Financial vulnerability, resilience (conceptual)	Cost of living, debt, and stagnant wages erode M40 resilience
This paper (proposed)	Malaysian M40 households	Cost of living, financial literacy, debt management, resilience, well-being	Resilience proposed as mediating mechanism linking all three antecedents to well-being

Methodology

This study utilized a cross-sectional survey approach design to verify the interrelationships between cost of living, financial literacy, debt management, financial resilience, and financial well-being among Malaysian M40 households. It also provides an applicable framework for measuring relationships among multiple latent constructs and evaluating financial resilience as a mediating mechanism (Creswell & Creswell, 2018; Sekaran & Bougie, 2019).

The study population comprises of Malaysian M40 households with monthly household income between RM5,860 and RM12,679. This study used a 5-points Likert scales questionnaire using validated measures adapted from established literature. Cost of living will be gathered through household expenditure, while financial literacy will measure matters related to financial knowledge and decision-making capability. Debt management measures the M40 household repayment discipline and credit management. Whereas financial resilience will evaluate the competency to cope with and overcome financial disruptions. And financial well-being will reflect the perceived capability to meet current and future financial obligations (Brüggen et al., 2017; Huston, 2010; Salignac et al., 2019).

Stratified sampling will be employed to gather adequate representation of the M40 population across relevant income and geographical characteristics. A sample of approximately 400 respondents is proposed based on established guidance for structural equation modelling of a model of this complexity (Hair et al., 2019).

Data will be conducted using structural equation modelling (Hair et al., 2022; Sarstedt et al., 2022). Confirmatory factor analysis will evaluate the measurement model through factor loadings, composite reliability, and average variance extracted (Hair et al., 2022; Sarstedt et al., 2022). Then the structural model will then examine the relationships between the three antecedents and financial resilience, also between financial resilience and financial well-being (Hair et al., 2022). Mediation will be measured using bootstrapped confidence intervals for the indirect effects (Hair et al., 2022; Sarstedt & Moisescu, 2024). Direct effects will also be examined to determine whether financial resilience partially or fully mediates these relationships (Hair et al., 2021).

Theoretical Implications

If confirmed by future empirical research, this model would extend the financial resilience literature by demonstrating that resilience functions not merely as a correlate of financial well-being, as much existing cross-sectional research has documented, but as the specific mediating mechanism through which three commonly studied but rarely jointly modelled antecedents, cost of living, financial literacy, and debt management, are converted into a household's overall financial well-being (Hamid et al., 2023; Liu et al., 2024; Curry, 2025). This would also extend Brüggen et al.'s (2017) original conceptualization of financial well-being, which identified contextual factors, personal factors, and financial behaviors as inputs into well-being without fully specifying the intervening mechanism connecting them, by proposing financial resilience as precisely that intervening mechanism for the specific antecedents examined here (Brüggen et al., 2017; García-Santillán, 2026).

Limitations of the Conceptual Approach

This study lacks empirical data to validate proposed relationships. Although the propositions are supported by extensive literature on financial well-being, financial resilience, and household finance, they remain theoretical assumptions until they are empirically tested. The model's emphasis on M40 households limits the extent to which its proposed relationships can be generalized to B40 or T20 households. These income groups may differ substantially from the M40 in terms of exposure to cost-of-living pressures, financial literacy requirements, and debt-related challenges. Furthermore, the proposed classification of cost of living, financial literacy, and debt management as operating primarily through financial resilience,

rather than exerting substantial independent direct effects on financial well-being, is ultimately an empirical question, and future data could reveal a more complex pattern, for instance if cost-of-living stress exerts a meaningful direct psychological effect on well-being independent of its impact on measurable resilience indicators.

Conclusion

This paper has proposed a conceptual model in which cost of living, financial literacy, and debt management are theorized as antecedents of financial resilience among Malaysia's M40 households, with financial resilience, in turn, positioned as the central mediating mechanism shaping financial well-being. Grounded in Brüggen et al.'s conceptualization of financial well-being, Salignac et al.'s multidimensional financial resilience framework, and a substantially recent body of literature on financial literacy and household debt behavior, the paper has argued that cost of living is likely to erode financial resilience, while financial literacy and effective debt management are likely to strengthen it, with financial well-being emerging as a downstream reflection of the resilience capacity these three antecedents jointly shape. These propositions, together with the proposed methodology for their future empirical validation, are intended to provide both a theoretically coherent starting point for subsequent quantitative research on Malaysia's structurally distinctive middle-income population and an early, provisional basis for financial education providers and policymakers to treat financial resilience, rather than financial well-being alone, as a proximate and measurable target of interventions targeted at strengthening the financial standing of M40 households.

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