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# **Financial Education Policy Directions after the Enactment of Financial Consumer Protection Act in Korea**

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## MOTIVATION AND BACKGROUND

- Restructuring of the Financial Consumer Protection Bureau (FCPB) of the Financial Supervisory Service (FSS) in January 2020
  - To provide more effective protection to financial consumers, the FSS fine-tuned the structure of the FCPB with both ex ante and ex post protection measures
- Enactment of the Financial Consumer Protection Act (FCPA) in March 2020
  - Article 29 stipulates that the Financial Services Commission (FSC) should endeavor to improve the financial capability of financial consumers
  - Article 30 stipulates that the FSC should develop financial education programs and make policies to improve the financial capability of financial consumers
    - Parallel to the provision of the Framework Act on Consumers which stipulates the State and local governments' responsibility for developing programs to enhance consumers' ability in line with economic and social development
    - Emphasis on the government's responsibility for financial education on account of its characteristics as a merit good and a public good

- Article 31 stipulates the establishment of the Council on Financial Education (CFE), which is tasked to review and decide financial education policies
  - The CFE consists of 25 or less representatives from the government agencies related to financial education and is chaired by the vice chairman of the FSC
  - Similar to the Financial Literacy and Education Commission in the US
- The FCPA will take effect from March 2021
- Release of 「Plans for Improving Financial Education」 in May 2020
  - The FSC announced the basic plans decided by the Council on Financial Education
  - The council plans to work on improving the effectiveness of financial education through an enhanced level of cooperation between the public and private sectors
    - Designing a set of financial literacy indicators to help develop and manage educational contents in a more systematic way
    - Ensuring credibility through a contents certification system
    - Establishing a financial education center tasked with overseeing the contents certification system and maintaining the one-stop online contents site

## LITERATURE REVIEW

### ○ Financial Education

- Financial education is to improve the capability to make informed financial decisions
  - Includes the ability to find sources of appropriate information and help
  - The ultimate purpose is financial well-being (CFPB, 2015)

Financial education can be defined as “the process by which financial consumers improve their understanding of financial products, concepts and risks and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being. (OECD, 2005)

- Closely related to personal finance and financial planning
- Financial education facilitates the progress of financial inclusion by helping to overcome the limitations and vulnerability of financial consumers
- Included in the High-level Principles on Financial Consumer Protection endorsed by the G20 Finance Ministers and Central Bank Governors in 2011

## ○ Financial Literacy and Financial Capability

### ■ Definitions by the worldwide organizations

Financial literacy is a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing. (OECD INFE, 2012)

Financial capability encompasses the knowledge, attitudes, skills, and behaviors of consumers with regard to managing their resources and understanding, selecting, and making use of financial services that fit their needs. (World Bank website)

- Both terms can be used interchangeably, reflecting similar perceptions of the reality they aim to cover. Financial literacy is considered the most common international term (OECD INFE, 2011)
- Financial literacy is generally used as a narrower term than financial capability (World Bank, 2014)
- Financial literacy focused on knowledge and skills but now tends to include attitudes and behaviors. Nonetheless, financial capability is more comprehensive (Hahn, 2019)

- Financial Education System in the US
  - Financial Literacy and Education Improvement Act
    - President's Advisory Council on Financial Literacy/Capability
  - Financial Literacy and Education Commission (FLEC)
    - Development of a national strategy to promote financial literacy and education
    - Establishment and maintenance of best practices for teaching financial literacy
    - Establishment and maintenance of a website, which is currently MyMoney.gov
    - Cooperation (consultation) with representatives from private and nonprofit organizations
  - Participation and role of the private sector
    - Council for Economic Education (CEE)
    - Jump\$tart Coalition for Personal Financial Literacy

## **POLICY DIRECTIONS**

- There should be the government's strong will to promote financial literacy (education) and people's consensus (voluntary and active participation)
- Effectiveness of Financial Education Contents
  - It is necessary to consider a life-cycle based financial education and financially vulnerable groups of people
    - Financial consumers may have different concerns and needs according to their life-cycle stages
  - Financial Literacy Map
    - Consideration of dimensions of financial literacy: different aspects (knowledge, skill, attitude, behavior, and self-efficacy), life-cycle horizon, etc
    - Consideration of the standard (or minimally required) level of financial literacy for each dimension
  - Increasing importance of financial education for financial fraud prevention and detection

- Setting up of a One-stop Gateway
  - How to link diverse channels for financial education contents
  - Who is charge of the administrative work
    - An alternative solution is to utilize the existing system of the FSS
- Emphasis on Financial Education at School
  - Financial education for each stage as early as possible
  - More of essential topics about basic finance should be included in the related courses of the National Curriculum
    - Still in progress whenever the National Curriculum is amended but not enough
    - Minimum requirements in the common or mandatory courses
  - In a more practical manner
    - Tell me and I forget / Teach me and I remember / Involve me and I learn
    - Start from students' real life stories and situations in which finance matters
    - An intensive and experience-based learning week is recommended



- Cooperation between the public and private sectors
  - The most important thing for success when carrying out the government's plans
    - Many participants with potentially diverging interests and approaches
    - To avoid duplication of efforts and resources
    - To ensure the quality and consistency of financial education initiatives
- Finance + Education
  - Convergence of the two disciplines (areas) with an equal weight

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