

# The social change and citizen's financial literacy education —being based on the financial education of aging society in Korea—

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## 1. Introduction

In these days, the importance of the assets management has begun to be asked about between people with development of economy and financial industry. While this question is taken out, the voice which worries about senior citizen's assets management for an old age life as well as aging is being spouted in Korean society. On the other hand, low interest rates progressed in financial industry and as a result people lost charm to a saving of the bank as low interest rates of existence, and a depositor of the bank came to increase in the interest to the securities investment. But after a financial crisis by bankruptcy of Lehman Brothers, people have begun to be hesitated to securities investment. That is to say, people have begun to show the form that they're skeptical about both of the credit and securities investment.

While an economic condition concerning such finance is severe, a government established "The law about a financial investment industry and a capital market". This law is dividing financial industrial structure by territory of three, "commercial banking services", "financial investment business" and "insurance business". This fact shows that the government tries to put the reform which spurs expansion in a financial market on into effect. Actually, the investment which is generally performed most in Korea today is the form of the indirect investment for which investment trust was utilized.

But there is a fundamental problem that a specialist of a financial policy and a specialist in a financial market of a government point out unanimously. Even if individual investor's much says investment trust, the problem is that the fact that an investment involves risk isn't recognized sufficiently. Concretely speaking, the problem

is that investors can be relieved at whether a principal is protected unconditionally like the deposit of the bank by all means because a specialist is using. Actually, there is an example of the people who invested in the bond type investment trust goods by which the financial goods thought as safe and did the experience with which the loss low than a principal is held. As a result, the background in which an investor doesn't have enough knowledge includes the following reason. A lack of the explanation at the desk of the financial institution and the inefficiency of financial education that an investment involves risk can be given with the reason. Furthermore as various financial products as well as expansion in a financial capital market appear, a financial market is complicated today. When an investor doesn't have enough financial knowledge in such situation, an investor will increase in the case which buys investment goods while advancing towards a sales representative of a brokerage firm. As a result, a possibility that important property is lost by others becomes high, not that an investor loses property by a mistake of his judgment.

In these days, a financial investment isn't just a speculative campaign but is mean to realize that a citizen use property and plan for living stability in the situation that assets management in senior citizen's old age is regarded by low interest rates and the complication of a financial product as a problem. That is to say, when the situation that an investment isn't a venture any more is considered, it seems said that the individual investor needs implementation of the financial education prepared for a change in the finance environment that they account for judgment by themselves, participate in an investment and change suddenly at the same time. Therefore this research argues a problem with need of "the financial education"<sup>1)</sup> which made a Korean individual investor the subject.

## 2. Expansion in a financial market and the present problem

### 2.1. Expansion in a Korean financial market and the increase of individual investor's financial investment

Korean financial stock market was established in March in 1956. And a time and

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1) Financial education is overall education about the assets management which deepens the understanding about money and plans for management of household budget and multiplication in property. In particular, the meaning of the recent financial education indicates the education which makes the acquisition of knowledge and investment theory related to the assets management and financial product in the lifelong time.

stock market met a turbulent period first in 1960's. But it tranquilized right now by government control. After that, the government promoted an economic policy which was focused on heavy chemical industry. As a result, the capital market was formed in Korea and foreign investors started to invest stock market of Korea. And then, financial liberalization began to bring a financial investment from foreign countries from 1987. The direct equity investment in foreigner's Korean stock exchange was permitted in 1992.

On the other hand, democratization of Korean society is promoted politically, and the political change such as democratization has also begun to have an influence on an investment in the Korean economy.

A Korean financial market started also to increase in entry of an individual investor as well as an institutional investor by a financial liberalization policy and democratization. Concretely, it can be grasped by the increase of the stock investment price of the capital market in Korea suddenly after 1990. (Table1.)

Table1. Transactions in Securities and Stock Price Index

	1996	2000	2004	2008
No. of Listed Cos. (Coroporation)	760	704	683	763
No. of Listed Issues (Item)	1,143	902	844	926
Market Value Per 5000won (Won)	13,650.00	11,070.00	22,760.00	32,170.00
Trading Value-Total (Mill.Won)	142,643,246	627,132,939	555,795,105	-
Total Market Capitalization (Mill.Won)	117,369,988	188,041,490	412,588,139	576,887,540
KOSPI (Annual or Monthly Average) (1980.01.04=100)	833.4	734.22	832.9	1,529.49
KOSPI (End Of) (1980.01.04=100)	651.2	504.62	895.9	1,124.47

There was a reason of a change in Korean society in the background where an individual investor joined a financial investment. Firstly, the policy of low interest rates was promoted since an Asian currency crisis. Secondly, as Korea was entered in aged society by retirement in the baby boom generation, senior citizen's investment started to be increased. If the expansion of Korean financial stock market is considered concretely, it can be confirmed from following value to be shown the increased change in a financial market.

Table2. Foreign financial investment in South Korea (year, million dollars)

1994	1996	1998	2000	2002	2004	2006	2008
28.6	120.7	207.05	278.6	310.4	903.8	1216.2	1189

To sum up, it can be said that expansion of a financial investment of Korean society

is due to increase of the individual investor as senior citizen generation actively participated in the stock market, and the increase of foreign investor who make the democratization and the political economic factor of financial liberalization.

## 2.2. Building of the financial investment environment and establishment of a financial investment related law

While a financial capital market was expanding in Korea, a legal system related to a financial investment started to be maintained. The contents of financial investment related bills can be explained as follows.

### 1) Depositor's protection law

This law was established to save people which handle the situation that it isn't possible to pay the deposit as a financial institution is bankruptcy. This law intended to plan for stability of a financial system as a bank deposit guarantee system was managed efficiently and a depositor was protected at the same time. (It was legalized by No.5042 on December 29th in 1995. And it was revised by No.7615 on July 29th in 2005.)

### 2) The law about investment trust business

To make the individual investor's securities investment easy, "the law of securities investment trust trade way" was established for the purpose of contributing to development of national economy. In particular, this law intended to build a securities investment trust system and protect a beneficiary of a securities investment trust. "Securities investment corporate law" and "indirect investment property usage" which was legalized before were abolished by establishment of the above law.

The "depositor's protection law" and "the law about investment trust business" were established under the gist which promotes expansion of individual investor's financial securities investment. Concretely explaining, the table below illustrates that a financial investment is increasing actually.

Table3. The trend of investment in each financial institution)<sup>2)</sup> (per billion)

year	Indirect investment	The credit of bank	Bank entrusting	stock
2001	155,037	444,569	78,408	12,504
2002	174,174	503,059	70,373	11,285
2003	145,037	545,225	54,607	14,771
2004	186,990	549,297	45,154	13,251
2005	204,333	587,607	47,546	20,681
2006	234,009	580,418	50,101	21,717

But when a financial investment related laws are judged from the two aspects of the efficiency of individual investor's protection and the financial investment environment, there are following problems.

Firstly, legalization about new financial service for individual investor's financial transactions such as FX (foreign exchange transaction) has not been arranged yet.

Secondly, the concrete article about "the explanation obligation"<sup>3)</sup>, when being investment invitation of a financial investment company, is not written clearly by present law. Therefore a problem occurs frequently between the individual investors and financial dealers who sell financial products.

Thirdly, there is establishment of regulation about advertisement of financial investment goods. Of course, risk which is involved by an investment of a financial product in the present financial product advertisement is written. But image advertising of a financial investment company doesn't have enough explanations about risk of an investment. Therefore the problem that understanding to people's general investment becomes ambiguous is pointed out.

Fourthly, relaxation of regulation to the financial brokerage firm which put a foundation in the present off-line dealings is to be desired from both of an institutional investor and an individual investor in the process which On-line investment to use internet is expanded. That is to say, while the environment of the financial investment is changing, the development of legislation suitable for the change is intended now.

In the next clause, the form of the financial education and problems of a Korean citizen are considered concretely.

2) The re-edition by writer (based on the Bank of Korea HP)

3) When a financial investment company invites an investment of financial investment goods to an investor, "the explanation obligation" is to give the obligation to explain so that an investor can understand the contents of goods and danger based on the article set as a decree.

### 3. Citizen's form of the financial investment and problem of financial education

#### 3.1. The form of the financial investment of a citizen

In the case of Korean financial investment, indirect investment like investment trust forms the mainstream. When the meaning of the indirect investment is investigated, its meaning means that an individual investor lacking in investment knowledge and time entrusts his investment fund to a specialist.

To put it more precisely, indirect investment has effects in terms of that it is possible to invest in the situation insufficient in knowledge and time, try investment by funds of a small sum, and a specialist can hedge risk through a dispersion investment. As a result, indirect investment and securities investment increase suddenly comparing with the deposit of bank in recent years. However, it's real that need of knowledge is also desired about a financial investment, even though the indirect investment entrusted to a specialist of an investment is mainstream.

In the next clause, the reason that an individual investor needs financial education is grasped through analyzing individual investor's general investment cases.

#### 3.2. Case analysis about necessity of individual investor's financial education

Since 2006, this paper was conducted by an interview survey about the investment activity of 15 individual investors. Through interview survey, this paper investigated the "the consciousness about" necessity of financial knowledge" as the premise of financial investment.

In the people who have a financial asset focusing on a stock and investment trust, Mr. A (68 years old) is possessing about 12,000,000 wons of investment trust related to the stock certificate such as Samsung Electronics and BRICS. Mr. A is telling the motive which bought a stock as follows.

My nephew was working for a brokerage firm, and purchase of a stock was recommended from his father. Samsung Electronics was a major company and I thought it wouldn't go bankrupt and bought it. And when going to a correspondent bank, the man to contact's person could recommend investment trust, and it was

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4) The interview of A (September, 24<sup>th</sup>. 2006)

bought.<sup>4)</sup>

Mr. B (63 years old) possesses a financial related stock mainly. He's telling the motive which has begun to invest as follows.

The reason that a financial related stock was bought is because I heard the fact that a colleague of company bought stock and made a profit and had an interest.<sup>5)</sup>

Mr. C (58 years old) begins to work for a government central organ of government as an official servant, and it's the 29th year. He's telling the motive from which investment trust has been begun as follows.

The money for which a bonus was saved several years ago is invested in the IT related stock suggested to a person of a brokerage firm and everything has been lost. I didn't want to do a stock investment with that. But, I was recommend investment trust from the surrounding person because it's the near investment type of deposit of bank, and am investing the part of the salary now.<sup>6)</sup>

Mr. D (62 years old) invests in a fixed property and investment trust. He's increasing money by a real estate investment from twenties and invests 1,000,000 wons every month in investment trust goods of the reserving type recently. He's telling me as follows that I asked him why an investment was begun.

I borrowed money from a bank and bought a real estate. After that property was increased by the shape that it's resold. But, a real estate is taxable highly recently. Then a chief director of a correspondent bank recommends investment trust, and I am investing about 1,000,000 wons every month.<sup>7)</sup>

Mr. E (61 years old) invests property at about 100,000,000 wons in a stock. He's telling a way of investment and the motive which a stock investment has been begun as follows.

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5) The interview of B (December, 4<sup>th</sup>. 2006)

6) The interview of C (March, 12<sup>th</sup>. 2007)

7) The interview of D (December, 27<sup>th</sup>. 2007)

I was recommended to buy stock from my friend and bought stocks. Then I made a profit. Since 1990s, I have read articles on a newspaper and heard person's open talk of a brokerage firm. And I am watching a stock program of CATV every day and analyzing charts in my way recently.

..., Of course, the one which is being consulted most is person's advice of a brokerage firm because dealers made a relationship for a long time. Additionally, I expected to be provided information from them because people of a brokerage firm might be also heaping secret information.<sup>8)</sup>

Mr. F (58 years old) is the person who has begun an investment in stocks from 5 years before. His investment method and motive seem to be below.

I was interested in assets management from before, so I have begun to invest a stock by a way of the net dealings you can trade in which by yourself. I read an investment in stocks related book, go out to a seminar of a brokerage firm, buy it by the judgment and sell them now. I think people should study personally to invest and it's strange to swallow person's talk of a brokerage firm without chewing it.

There are a lot of parts where the contents of people's other hearings are also piled up on an essential place. In the below, the motive which has begun to invest financially and description about investment method will be analyzed concretely.

Firstly, it can be said that the tendency invested based on specialist's advice is bigger than the investment that an investor chooses as his or her judgment in the case of many citizens.

Secondly, it's a problem of the degree of the recognition about investor's risk in the form of the indirect investment such as investment trust. Investors understand the risk of investment trust is less than risk in stock investment. Additionally, it can be said that it's a problem to recognize that investment trust is similar to the deposit of bank.

Thirdly, when investing, there is a problem that there are little people who have the understanding that the study is important.

When three of above mentioned contents are synthesized, senior citizen's investor is interested in a fixed property, a stock and various financial assets of investment trust.

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8) The interview of E (May, 6<sup>th</sup>, 2008)



However, the problem is that they do not consider significantly that investment risk and learning for investment should be based on before investment activity. In other words, while the population of the financial investment is increasing, it can be said that an individual investor don't have enough financial knowledge. Judging from the above, it can be said that the present investor needs financial education.

### 3.3. Practice and problem of financial education

#### 1) Korea council for investor education (KCIE)<sup>9)</sup>

##### a. Idea of establishment

KCIE is the nationwide investor educational institution which established jointly seven related organizations of securities such as the financial oversight committee and the securities business conference including Office of the Comptroller of the Currency, for the purpose of rational investment cultural formation and investor protection.

##### b. The organization form

There are two establishment destinations in KCIE. The one is that offers systematic and efficient educational program to securities, commodities and the asset management. The other is that offers educational program for a property design in lifelong time and improvement of the investment judgment ability of the general individual investor through investor protection.

##### c. The way of the educational program construction

- Infrastructure building of investor education
- System building of efficient investor education
- The spread of investor education
- Research for improvement of financial education

##### d. The lecture contents

- The securities investment meeting of high school student
- Female securities investment academy
- Educational seminar of securities

9) <http://www.kcie.or.kr/home/main/index.jsp>

10) [http://www.kcie.or.kr/home/e-Learning/Learning\\_list.jsp](http://www.kcie.or.kr/home/e-Learning/Learning_list.jsp)

- Securities investment lecture through a home page (On-line)<sup>10)</sup>
- Educational document creation and distribution
- Financial education at a school education

KCIE is the non profit organization established by leading with Office of the Comptroller of the Currency. And its educational method for financial education is based on the educational engineering or distance education. In the aspect of educational content, the weight of the indirect investment such as investment trust accounts for 40%. In particular, the way of "a business trip lecture" is watched by offering financial education as a part of school education and offering financial education for teachers.

On the other hand, it is considered as significant problem that a general individual investor doesn't have enough educational programs which can recognize a principle of a financial investment based on self-responsibility and own judgment. At the same time, the expansion of financial educational opportunity and diversification of the lecture contents are considered as a problem in the local level.

## 2) Korea investor's education foundation (KIEF)<sup>11)</sup>

### a. Establishment destination and background

While aging is developed rapidly in the society situation of the recent years, the tendency of the early retirement is spread and asset management of aged is discussed as serious social problem. In particular, formation of the knowledge and the ability is demanded as a significant problem in order that a general individual investor manages his property appropriately by a rapid change in social economic environment.

KIEF aimed at the necessity of educating financially for a retiree and a retired pension subscriber to adjust to a social change. And KCIF was established for the purpose of contributing to development of asset management industry and interest improvement of investors who participate in an indirect investment.

### b. Educational contents

- Basis knowledge about the fund (Fund's making money method, fund investment cost, Fund's management solution and Fund's tax)

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11) <http://www.invedu.or.kr/index.php>

- Assets management lecture
- Assets management education through media
- Lecturer dispatch for financial investment education (assets management education for an enterprise, armed forces and a retiree of an agency)

c. Educational method

- Financial education using media
- Business trip education

When the feature of the financial education of KIEF is grasped, the following two points can be given.

Firstly, KIEF provides the assets management program which a retiree is set as an educational target. Secondly, KIEF provides the education limited to indirect investment in the financial investment.

Judging from above, it is explained that KIEF is focused on the financial education for aged to be retired. That is to say, the problem of KIEF is constructing the program of financial education.

Let me summarize the main points that have been made in above mentions. As the indirect investment which KIEF and KCIE recommend adopts the method which entrusts decision of an investment to a specialist of an investment, there is a possibility that encourages to individual investors financial education without not having self-responsibility to risk or aware about investment risk. Concretely speaking, today's financial education leans to investment method as indirect investment in spite of that the investment is premising on self-learning, self-judgment and self-responsibility. As a result, the problem of present financial education is the fact that the educational program based on self-responsibility and judgment should be provided.

#### 4. Promotion and problem of financial education for a citizen

British Financial Service Authority points out the problem that poverty succeeds to generation after generation by lack of understanding to financial literacy in the report as "A cycle of Disadvantage? : Financial Exclusion in Childhood)" in November in 2000.

The report analyzes the fact that the experience by which the home children with the low income are financial knowledge and financial service utilization more than the

child with the high income is low. But the same thing can say this analysis to an adult, too. The reason is because there is the differential in possibility which accumulate personal property by aging between the adult who doesn't have financial knowledge and the adult who has knowledge. On the other hand, the case that the chance when an adult gets education about finance is little is also a problem.

Actually, while necessity of financial education is asked about, today's Korean society bursts into aged society, therefore, demand about retiree's assets management, securities and indirect investment is increasing. In particular, when it's judged from the contents of individual investor's interview survey, the tendency for which an individual investor depends on a specialist rather than investment activity based on self-judgment is conspicuous. And, an investor doesn't come to the investment behavior for which one accounts in an investment with risk.

## 5 . Conclusion

When it's based on such individual investor's problem, the problem of today's financial education is that makes forming acquisition and responsible awareness of financial knowledge to an individual investor. And as making forms responsible awareness of financial knowledge to individual investors, financial education makes that they're achieving the active investment judgment which renders a decision based on passive investment learning, not to follow obediently in an opinion of a financial specialist. Finally, the method of financial education to achieve the active investment judgment for a citizen is being considered by future's study.