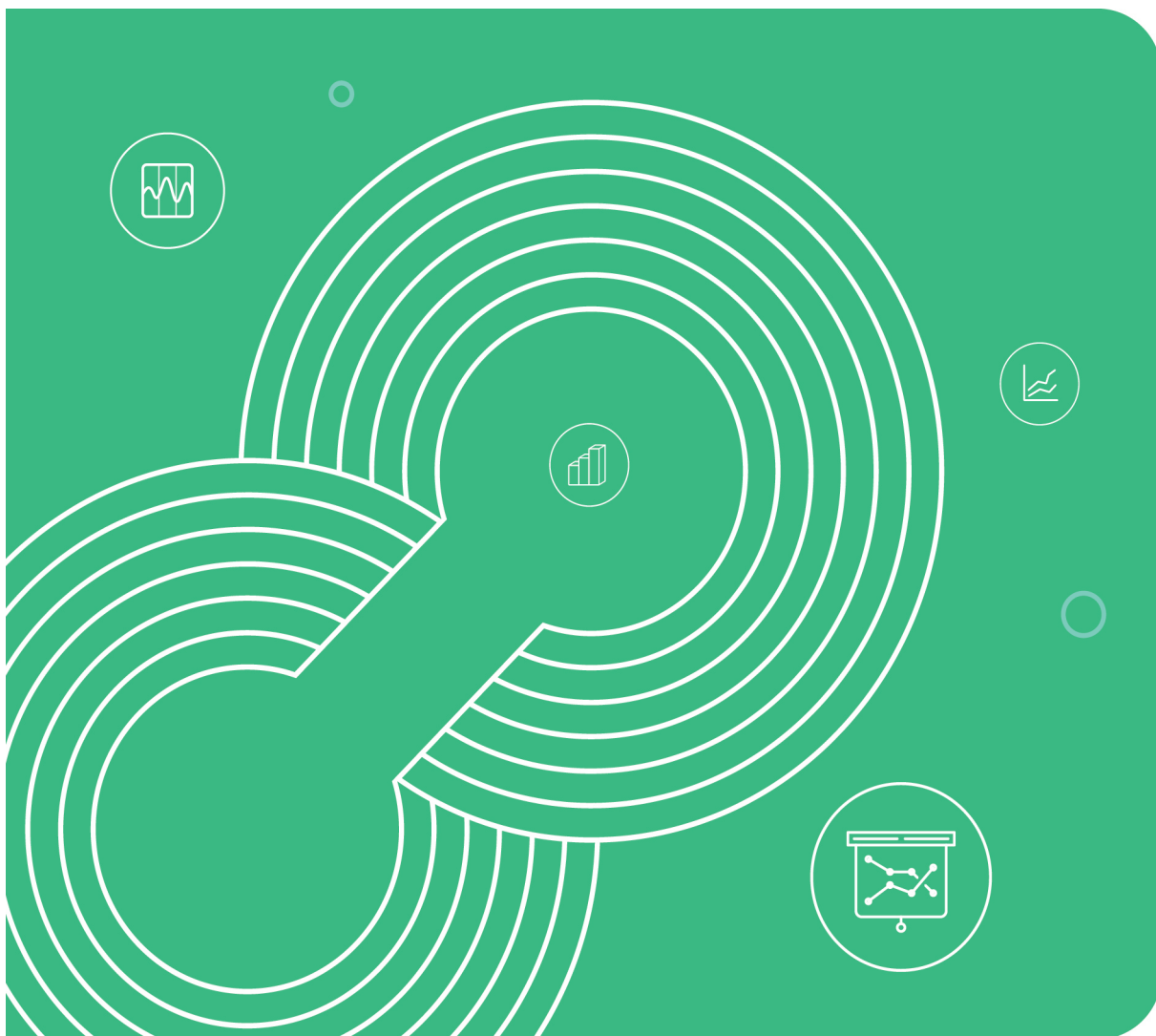


## Executive Summary

# 2014 Consumer Empowerment Index



Korea Consumer Agency

# 2014 Consumer Empowerment Index

## I . Background

- ❑ As a nationwide preliminary data on the level of consumer competency in Korea, this research aims to provide directions for consumer policies.
- Korea Consumer Agency conducted a nationwide study on consumer competency 4 years after 「Measurement & Evaluation of Consumer Competency in 2010」, in order to assess the changes in the levels of Korean consumers' competencies.
- Levels of consumer competencies related to households' financial management, transaction, and consumer-citizenship were measured. Differentiated weights were applied to these sub-levels to derive 'Consumer Empowerment Index'.

## II . Structure of the Consumer Empowerment Index

- ❑ Consumer competency could be defined as the 'summation of knowledge, attitude, and practice needed to fulfill one's role as a consumer' and is composed of following three parts.
- **(Financial Competency)** summation of knowledge, attitude, and skills needed when the consumer makes financial decisions for the household management.
- **(Transactional Competency)** summation of knowledge, attitude, and skills needed by the consumer when making purchase decisions in the market.
- **(Consumer-Citizenship)** summation of knowledge, attitude, and skills needed when one decides to fulfill responsibilities as a citizen of civil-society.

- ❑ The survey, which was used to derive the Consumer Empowerment Index, composed of 81 questions which were divided into 3 major categories and 9 mid-level categories (see Table 1).

〈Table 1〉 Structure of the Consumer Empowerment Index

Contents			Composition Factors			Sub total	Total
Major Category		Mid-level Category	knowledge	attitude	skill		
Consumer competency	Financial Competency	Financial Planning	4	4	4	12	27
		Asset/debt Management	3	3	3	9	
		Risk Management	2	2	2	6	
	Transactional Competency	Information Usage	3	3	3	9	27
		Purchase Decision-making	4	4	4	12	
		Usage and Dispute Solving	2	2	2	6	
	Consumer-Citizenship	Consumer Rights	4	4	4	12	27
		Consumer Liabilities	3	3	3	9	
		Consumption Society	2	2	2	6	
Total			27	27	27	81	81

- ❑ To compute the consumer empowerment index and to compare them with the previous work conducted in 2010, differentiated weights per category was applied.
  - 1 unit, composed of composition factors and mid-level category, was converted into a 100 point scale. Knowledge, attitude, and skill under the same mid-level category were aggregated (1:1:1) then divided by 3. The weight per mid-level category(W1) was then applied to derive the index

for the major categories(financial competency, transactional competency, and consumer-citizenship). The weight per major category(W2)was applied on the index of the major categories to derive the ‘Consumer Empowerment Index’

〈Table 2〉 Weights of the Consumer Empowerment Index

Contents		W1	W2
Major Category	Mid-level Category		
Financial Competency	Financial Planning	0.397	0.303
	Asset/debt Management	0.343	
	Risk Management	0.259	
Transactional Competency	Information Usage	0.346	0.354
	Purchase Decision-making	0.379	
	Usage and Dispute Solving Ability	0.275	
Consumer-Citizenship	Consumer Rights	0.338	0.342
	Consumer Liabilities	0.372	
	Consumption Society	0.291	

□ The outline of the survey is as shown in 〈Table 3〉

〈Table 3〉 Outline of the survey

Category	Description
Population	Adults above the age of 20 living in Korea
Sample Size	1,000 individuals
Sampling Method	Quota sampling (based on sex, age, and region proportional to the population)
Research Method	1:1 interview
Research Period	April 28, 2014 - May 23, 2014 (Total of 26 days)
Sampling error	95% confidence level, $\pm 3.1\%$ of sampling error

### III. Results

- ❑ 2014 Consumer Empowerment Index, which was measured with a new survey composed of 81 questions, scored 64 points out of 100 with the standard deviation of 7.5. There was an increase of 2.5 points compared to 2010 and the increase in consumer competency was shown thoroughly throughout the categories<sup>3)</sup>.
  - **Financial competency** showed an average of 63 points with the standard deviation of 8.7, which was an increase of 3.9 points from 2010's 59.1 points.
  - **Transactional Competency** showed an average of 63.3 points with the standard deviation of 9.0, which was an increase of 1.5 points from 2010's 62.1 points.
  - **Consumer-Citizenship** showed an average of 65.8 points with the standard deviation of 10.4, which was an increase of 2.7 points from 2010's 63.1 points.
- ❑ When we observe the mid-level category, "information usage" and "risk management" were shown to be relatively low while "usage and dispute solving" competency, competency to adopt in "consumption society," and competency to express "consumer rights" were shown to be high.
- ❑ An increase of 2.5 points within the past 4 years could be accepted as an optimistic sign, knowing that there are difficulties in increasing consumer competency within a short span of time. According to the standards for the level classification of the consumer empowerment index which was developed in 2010, scores derived in 2014 can be evaluated as shown in <Table 4>.

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3) This was derived by using the same weight to see the difference between 2010 and 2014's research result.

〈Table 4〉 Comparisons of the Consumer Empowerment Index('10-'14)

Mid-level Category	2010			2014			Inc.
	Mean	SD	Level	Mean	SD	Level	
Consumer Competency Index	61.5	11.4	C	64.0	7.5	C	+2.5
Financial Management	57.1	15.5	C	65.1	10.3	B	+8.0
Asset/debt Management	59.7	18.1	C	61.8	12.2	C	+2.1
Risk Management	61.3	20.2	C	61.7	13.8	C	+0.4
Financial Competency	59.1	13.6	C	63.0	8.7	C	+3.9
Information Usage	60.9	16.8	C	61.1	13.3	C	+0.2
Purchase Decision-making	62.5	13.4	C	62.7	9.8	C	+0.2
Usage and Dispute Solving	63.3	18.9	C	67.0	15.9	B	+3.7
Transactional Competency	62.1	12.7	C	63.3	9.0	C	+1.2
Consumer Rights	65.0	16.8	B	66.2	12.5	B	+1.2
Consumer Liabilities	61.1	16.4	C	64.8	13.4	C	+3.7
Consumption Society	63.2	20.8	C	66.4	14.9	B	+3.2
Consumer-Citizenship	63.1	14.1	C	65.8	10.4	B	+2.7

□ 2014 Consumer Empowerment Index shows a significant difference per demographic characteristics of consumers (see 〈Picture 2〉, 〈Picture 3〉, and 〈Appendix〉).

○ While statistically significant differences were found according to the levels of age, income, education, residential area, employment status, marital status, family life cycle, and subjective social class, no significant differences were found based on gender.

□ “Subjective consumer competency” is defined as the subjective dimension of how an individual recognizes one’s competencies as a consumer. The number of consumers perceiving their subjective consumer competency as low was highest in the domain of financial competency followed by transactional competency and consumer-citizenship.

- ❑ The results of cross section analyses showed that more than 1/4 of the consumers who answered their consumer competency to be “high”, actually were overestimating their consumer competency levels.
  - **(Financial competency)** 40.3% of the consumers who see their financial competency as “high” or “very high” were actually overestimating their competencies.
  - **(Transactional Competency)** 34% of the consumers who see their consumer transactional competency as “high” or “very high” were actually overestimating their competencies.
  - **(Consumer-Citizenship)** 24.5% of the consumers who see their consumer citizenship as “high” or “very high” were actually overestimating their competencies.
  
- ❑ The financial competency level of those who had experiences in financial education or consultation was shown to be higher than those who had no experience (see <Table 5>).
  - **(Financial Education)** The average financial competency index of those who had experience in financial education was shown to be 68.58 points, which was higher by 6.05 points compared to those who had no experience in financial education. This result was significant at  $P<.001$ .
  - **(Financial Consultation)** The average financial competency index of those who had experience in financial consultation was shown to be 68.13 points, which was higher by 5.86 points compared to those had no experience in financial consultation. This result was significant at  $P<.001$ .

〈Table 5〉 Financial Competency Index based on the Experience state of Financial Education/Consultation

Variable	Experience state	N	Financial Competency Index		T-test		
			M	SD	t-value	DF	Sig.
Financial Education	Experienced	84	68.58	10.22	5.288	93.511	.000
	Inexperienced	916	62.53	8.37			
Financial Consultation	Experienced	131	68.13	8.50	7.359	171.359	.000
	Inexperienced	869	62.27	8.48			

□ The transactional competency level of those who had experience in consumer consultations were higher than those who had no experience in consumer consultations. However, this was not the same case for consumer education, which appeared to have no statistically significant effect.

○ **(Consumer Education)** The average transactional competency index of those who had experience in consumer education was shown to be 65.04 points, which was higher by 1.81 points compared to those who had no experience of consumer education. However, this difference was not significant at  $P < .05$ .

○ **(Consumer Consultation)** The average transactional competency index of those who had experience in consumer consultation was shown to be 67.49 points, which was higher by 4.44 points compared to those who had no experience of consumer consultation. Also, this difference was significant at  $P < .05$ .



〈Table 6〉 Transactional Competency Index based on the Experience state of Consumer Education/Consultation

Variable	Experience state	N	transactional competency index		T-test		
			M	SD	t-value	DF	P
Consumer Education	Experienced	(33)	65.04	10.95	1.142	998	.254
	Inexperienced	(967)	63.23	8.95			
Consumer Consultation	Experienced	(54)	67.49	10.59	3.031	57.59	.004
	Inexperienced	(946)	63.05	8.81			

□ The consumer-citizenship index of those who had experience in consumer education/consultation was shown to be higher than those who had no experience (see 〈Table 7〉).

○ **(Consumer Education)** The average consumer-citizenship index of those who had experience in consumer education was shown to be 71.07 points, which was higher by 5.46 points compared to those who had no experience in consumer education. This result was significant at  $P<.05$ .

○ **(Consumer Consultation)** The average consumer-citizenship index of those who had experience in consumer consultation was shown to be 71.19 points, which was higher by 5.71 points compared to those had no experience in consumer consultation. This result was significant at  $P<.001$ .

〈Table 7〉 Consumer–citizenship Index based on the Experience state of Consumer Education/Consultation

Variable	Category	N	Consumer–citizenship Index		T–test		
			M	SD	t–value	df	P
Consumer Education	Experienced	(33)	71.07	11.52	2.70	34.08	.011
	Inexperienced	(967)	65.61	10.26			
Consumer Consultation	Experienced	(54)	71.19	11.84	3.892	998	.000
	Inexperienced	(946)	65.48	10.18			

## IV. Implications

- First, as it is not desirable for the differences per consumer competency within the mid-level category to increase, there is a need to provide measures to develop ‘information understanding and usage competency’ and ‘risk management competency’ for the consumer competency to be developed evenly among categories.
  - There is a need to examine whether there are relevant and sufficient contents in consumer education emphasizing risk management competency and information understanding and usage competency. Also, there seems to be a need to increase consumer education programs which could increase ‘information understanding and usage competency’ and ‘risk management competency.’
- Second, when providing solutions to alleviate the social differences in consumer competency, it would be best to focus on reducing the difference in consumer competency based on income and social class.
  - Those who fall under the following sections should become the target

population for the policy programs to strengthen consumer competencies; 20's (age), unmarried(marriage status), unemployed(employment status), educational attainment below high school(educational level), monthly income of 1,500k won and below(average monthly household income), low social class(subjective social class), and old age with no dependent children(family life cycle).

- Among these, the difference in consumer competency due to marital status and family life cycle is possibly caused by the lack of consumption experience and could be solved once the consumer gains experience as they go through each of the process. This point needs to be taken into account when one is trying to solve the difference through consumer policy approach.
- On the other hand, we need to note that the consumer competency of those who fall under lowest income class(average monthly income of 1,500k won and below), are lower than the other income classes. There is a need to develop customized programs of consumer education/consultation for the lowest income class.
- Third, there is a possibility that those who recognize their consumer competency as subjectively high would not feel the importance and the need for consumer education/consultation services. Thus to reduce the gap between subjective and objective consumer competencies, 'self-diagnosis index for consumer competency' should be provided.
- Those who overestimate one's consumer competency lose the opportunity to make the optimal consumption decision by not considering assistance or help from external sources. This leads to reductions in both demand for consumer education/consultation and consumer welfare.
- Through simplification process, the 81 consumer competency index survey used in this study could be used as a tool to diagnose one's needs for consumer education/consultation services.

- ❑ Fourth, the result of this study shows that the consumer competencies of those who previously had consumer education/consultation is high in all areas including financial/transactional/consumer-citizenship aspects. This result supports the previous policy stands which aimed to strengthen consumer competency through consumer education/consultation programs.
- However, even within the group of consumers who had experiences in consumer education/consultation, there are differences existing mainly due to differences in income. Thus there are limitations in strengthening consumer competency by increasing the number of consumer education/consultation within a short period of time.
- There is a large probability that the difference in consumer competency is due to differences in income. Thus there is a need to alleviate the increase in income bi-polarization and at the same time, make policy efforts to maintain the income level of the lowest-income class.
- These results also show that consumer education/consultation services are more actively used by consumers with high consumer competency. Thus it would be important to improve the approachability of consumer education/consultation services as to not let the services be concentrated on consumers with high competencies only.

〈Appendix〉 Differences in the Consumer Empowerment Index by Demographic Variables

Variable	Category	No. of Sample	Consumer competency Index		ANOVA	
			M	SD	F	P
	Total	(1000)	64.00	7.49		
Sex	Male	(493)	64.22	7.51	0.813	0.368
	Female	(507)	63.79	7.47		
Age	20's	(179)	63.63	7.80	19.076	0.000
	30's	(194)	65.46	7.10		
	40's	(216)	66.34	6.91		
	50's	(198)	63.93	6.59		
	60's	(213)	60.67	7.73		
Monthly household Income (won)	Below 1,500k	(66)	56.85	7.17	26.760	0.000
	1,500k - below 3,000k	(241)	63.52	7.73		
	3,000k - below 4,500k	(349)	64.25	6.88		
	Above 4,500k	(344)	65.45	7.19		
Educational Level	High School Graduate	(459)	62.35	7.58	16.855	0.000
	Some College Education	(166)	64.59	7.72		
	University Graduate	(362)	65.61	6.82		
	Graduate School and above	(13)	69.91	6.00		
Residence	Seoul	(207)	65.61	7.00	6.116	0.002
	Metropolitan Cities	(256)	63.61	7.47		
	Other Small Cities	(537)	63.56	7.61		
Employment Status	Employed	(402)	64.94	7.43	10.882	0.000
	Self-employed	(276)	64.88	7.01		
	Unpaid Family Worker	(9)	63.20	5.95		
	Unemployed	(313)	62.04	7.67		
Marital Status	Single	(224)	63.64	7.71	7.801	0.000
	Married	(758)	64.26	7.41		
	Others	(18)	57.40	4.83		
Family Life Cycle	Single Household	(50)	63.65	7.77	10.279	0.000
	Newly Wed	(27)	66.15	6.56		
	Rearing preschoolers	(88)	66.53	7.31		
	Rearing school-aged children	(195)	65.85	6.82		
	Living with unmarried children	(440)	63.93	7.28		
	Living with married children	(16)	64.09	8.69		
	Old age with out Dependent Children	(184)	60.77	7.61		
Subjective Social Class	Upper class	(24)	65.43	10.27	13.689	0.000
	Upper middle class	(292)	65.63	7.69		
	Lower middle class	(504)	63.98	6.84		
	Lower class	(180)	61.22	7.72		