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**INTERNATIONAL SEMINAR ON AWARENESS AND EDUCATION
RELATIVE TO RISKS AND INSURANCE ISSUES**

**Swissôtel, Istanbul
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**Importance of Enhancing Risk Awareness and Education on Insurance Issues
OECD Role, Principles and Good practices**

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(PowerPoint presentation)



Importance of Enhancing Risk Awareness and Education on Insurance Issues *OECD Role, Principles and Good practices*

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AND EDUCATION ON RISK RELATIVE TO
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OUTLINE

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- II. The Challenge of raising poor level of risk awareness and insurance culture and capability
- III. What can be done?
 - ❖ OECD role and project on financial education
 - ❖ OECD Good Practices for Enhanced Risk Awareness and Education on Insurance Issues
- IV. Policy conclusions and future OECD work



- I. Increasing needs for and importance of strengthened risk awareness and education on insurance issues

(1) Increasing individuals' responsibility for risk mitigation and coverage

- **Emergence of a "risk society"** : Modernization and globalization trends entail an expansion and increased frequency of a wide range of traditional and emerging hazards- Natural and industrial catastrophes, terrorism attacks, pandemics, demographic (i.e. increasing life expectancy, dependence), health, etc.
- **Social protection and coverage** -health, retirement, income replacement- provided by governments and other forms of solidarity **are shrinking in both OECD and non OECD economies:**
 - ➔ Greater individual responsibility for coverage of these risks
- **In most countries, incomes per capita are growing** creating new needs for protection of goods and assets.
 - ➔ Increased importance of insurance mechanisms to cope with these risk exposures and vulnerabilities

(2) Insurance business complexity and sophistication

- **Increasing variety and complexity of insurance products**
 - ✓ Sophistication of insurance business and complexity of insurance policies
 - ✓ A wide range of tailored products
 - ✓ New products -*unit-linked policies*- which transfer more risks/choice/responsibility to consumers

- **Complexity of the market and heterogeneity of the various insurance distributors**
 - ✓ Various types of insurance providers, intermediaries, new selling channels
 - ✓ Development of non-traditional providers and distributors

- **Regulatory and supervisory responses are necessary, but not entirely satisfactory and sometimes counterproductive**

(3) Gaps in Risk coverage

- **Lack of coverage for severe risks in OECD countries**
US- only 25% of home in areas liable to flooding have flood insurance cover
 - **Gap between global damages and insured losses** in emerging economies
 - **Inappropriate coverage**
Australia – between 27% and 81% of consumers are underinsured by 10% or more against current rebuilding costs- other may have overlapping insurance
 - **The most vulnerable** are the less covered/insured and potentially the most affected
- This may lead to social and economic exclusion of some segments of the population in both OECD and emerging economies

(4) Consequences and costs for the overall economy and society

Insurers and Intermediaries

- Less developed and competitive insurance markets-low risk pooling
- Costs of claims' litigation and complaints arising from badly understood products and mis-selling

Governments and citizens

- Costs of uninsured in case of damages
- Costs of tighten regulation and supervision
- Costs of complaints' handling and litigation



II. The Challenge of raising poor level of risk awareness and insurance culture and capability

(1) Poor level of risk awareness and of insurance capacities of individuals

- **General lack of awareness of most important risk-exposure and needs for coverage**
 - In the US, only 12% of senior people think they are likely to need long-term care
- **Insufficient understanding of the mechanisms and protection offered including through insurance mechanism**
 - In the US, only 45% of consumers get suspicious about a policy that costs significantly less than comparable ones
- **Lack of awareness of the lack of knowledge and understanding - objective vs. subjective evaluations**
 - In Australia, 65% of consumers claimed good knowledge of their insurance options, 70% of consumers expressed difficulty in understanding their particular insurance policy

(2) Resilient passive behaviours

Survey by Time Magazine in 2006 in the US :

84% of Americans felt that they were not well prepared should a natural disaster strike their community.

Asked why they did not take steps to prepare and get coverage, the respondents tended to deny that they were at risks:

- 49% did not think they live in an area at risk - ***risk denial***
- 44% did not know how to prepare - ***lack of information***
- 32% respondents did not believe that preparing would help – ***lack of confidence in proposed solutions***
- 27 % did not have time to prepare - ***implied cost/time of preventive measures- “myopia”***

→ Individuals do not necessarily make rationale decisions according to objective information on risks and insurance coverage possibilities

(3) Factors underpinning individuals' inertia

- **Lack of trust and confidence in insurance market players**
- **Consumers' myopia and procrastination vs. insurance culture**
Lack of willingness to subscribe long-term or infrequent risks insurance coverage
 - In the US, 20% of young adults would rather let their auto insurance policies lapse to save money
- **Samaritan dilemma: reliance on the assistance of the state**
 - In Turkey, TCIP- remaining relatively low insurance penetration of earthquake insurance
- **Passive behaviours as regards insurance issues**
Little "shopping around": reliance on the advice of the agent or intermediary
 - In the UK, only 10% of policyholders of life insurance products personally considered more than one policy and around 60% followed the advice of a distributor

The Challenge of enhancing risk awareness and capability on insurance issues

1. Improving the level, accessibility and quality of information and education provided to individuals on risks, available coverages and insurance mechanisms
2. Ensuring that better informed and educated individuals are taking active steps to assess their risk exposure/vulnerability and seek and choose appropriate coverage



III. What can be done?

*OECD Role and Project
on Financial Education*

OECD Project on Financial Education

- Main outcomes of **OECD Comprehensive Financial Education** project started in 2003:
 - ❖ Development of a Recommendation on Principles and Good practices for Financial Education and Awareness
 - ❖ Publication of the first major international study on financial education *Improving Financial Literacy: Analysis of Issues and Policies*
 - ❖ *G8 Financial Ministers* recognised, in June 2006, OECD work on financial education and mandated the Organisation to further develop financial literacy guidelines based on best practices

- Activities of the **Insurance and Private Pensions Committee and of the Working Party on Private pensions** focused on assessing, surveying and elaborating policy guidance relative to risk awareness and education on insurance and pensions issues

- Elaboration and finalisation of :
 - ❖ A comparative report on financial education and saving for retirement
 - ❖ A set of Good Practices on Financial Education relating to pensions
 - ❖ A comparative analysis on risk awareness and education issues in OECD countries
 - ➔ ***A set of Good Practices for Enhanced Risk Awareness and Education on Insurance Issues***



III. What can be done?

*OECD Good Practices for
Enhanced Risk Awareness and
Education on Insurance Issues*

1) Objectives

2) Role and responsibilities of main stakeholders

- Government
- Insurance market players
- Other social and business partner

3) Programmes and means

(1) Core Objectives of OECD Good practices for Enhanced Risk Awareness and Education on Insurance Issues

1. Heightening **awareness and responsibility vis-à-vis the potential risks** to which individuals are exposed and the **means by which insurance can cover them**
2. Enabling **citizens to develop the knowledge, understanding, capacities and confidence needed** to adequately appraise and understand the policies they require, to know where to look for additional information and objective advices if they need it, to **make informed decisions** about how to protect themselves and their relatives and to **adopt a proactive behaviour as regards their risk exposure and insurance coverage**

(2) Roles of main stakeholders

➤ Public authorities

- ❖ Assessment of risk–exposure and vulnerability
- ❖ Survey of individuals' needs for increased risk awareness and insurance education
- ❖ Education (possibly through school curricula) and information of individuals on risks, coverage possibilities and insurance mechanism and complexity
- ❖ Development of broad awareness and education campaign also targeting vulnerable groups and adapted to various public needs
- ❖ Coordination of other stakeholders' initiatives and the media
- ❖ Regulation– *apart from the overall consumer protection framework*
 - ✓ Possible introduction of compulsory insurance for severe risks in risk-prone area and/or for vulnerable groups
 - ✓ Effective enforcement of regulation
- ❖ Evaluation of interventions and programmes

(2) Roles of main stakeholders

➤ Insurance market players

- ❖ Assessment of and information on individuals' risk exposure and needs for coverage
- ❖ Development of innovative insurance products and channels adapted to consumers' situation and needs for coverage (e.g. micro-insurance for financially excluded population)
- ❖ Provision of accurate and accessible information and advice adapted to individuals' risk exposure and needs – adoption of codes of conduct
- ❖ Promotion and development of prevention campaigns aimed at raising risk awareness
- ❖ Elaboration of materials for public education programmes

➤ A wide range of **other social and economic stakeholders and local networks**

➤ **Individuals' and corporations' responsibility**

(3) Means and Programmes

Assessing and targeting individuals' needs

- Severe risks/complex products
- Vulnerable groups
- Types and content of information on products
- Passive behaviours

Developing awareness and education on risk and existing coverages

- Educating the educators
- Integrating basic risk and insurance notions into school curricula
- On-going/long-term approach
- Possible case for compulsory or default options coverage

(3) Means and Programmes

Using a variety of
tailored tools

- **Paper materials**
- **Internet/Website**
- **Broad media
campaigns**
- **Local network and
knowledge**

Evaluating initiatives'
Effectiveness and
Efficiency

- **Predetermined
criteria**
- **Cost-Benefit
approach**



IV. Policy conclusions and OECD future activities

Policy goals...

- ✓ Improving methods to assess level of awareness and education of individuals and governments on risk and insurance issues and designing methods to evaluate programmes
- ✓ Promoting awareness and education on risk exposure and available coverage as a national and international long-term policy goal
- ✓ Ensuring that individuals are receiving accurate and quality information in an appropriate manner, and relevant advice on insurance products and policies

...and means

- ✓ Involving a wide range of stakeholders (public, private and NGOs)
- ✓ Using a variety of tools (e.g. education, information, local knowledge, media, internet, tax incentives, introduction of compulsory coverage and possibly penalties)
- ✓ Enhancing knowledge and understanding of the target audience's needs
- ✓ Seeking ways to better address difficulties in modifying individuals' behaviours

OECD future activities a far-reaching programme of work

1. Establish the OECD as clearinghouse for financial education information by expanding the database and website
2. Encourage further policy dialogue and cooperation among countries on financial education through the organization of targeted national/regional/international events:
Global Forum on financial education to be organised in Asia late 2007/early 2008
3. Ensure dissemination and visibility of major OECD publications, analysis, surveys, principles and good practices on financial education and awareness
4. Develop far-reaching studies and benchmark of good practices on:
 - **Financial education in schools**
 - **Role of financial institutions and intermediaries**
 - **Financial education in emerging economies**
 - **Dedicated methodology** and criteria to launch and assess financial education programmes



THANK YOU
FOR YOUR ATTENTION!



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