



CHALLENGES OF FINANCIAL EDUCATION IN THE INSURANCE SECTOR

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What is Financial Education in the insurance sector?

OECD definition:

Financial education is the process by which consumers/investors improve their understanding of insurance products and concepts and, through information, instruction and/or objective advice develop the skills and confidence to become more aware of risks and opportunities to make informed choices, to know where to go for help, and take other effective actions to improve their financial well-being and protection



OUTLINE

- I. Why Financial Education on Insurance Issues should be strengthened?
- II. Adverse effects of insufficient insurance literacy
- III. What can be done?
- IV. Experiences to enhance financial education in the insurance sector
- V. OECD work and good practices on Financial Education in the Insurance area

I. Why Financial Education on Insurance Issues should be strengthened?

(1) Increasing needs for individual risk coverage :

- From the emergence of a “risk society” : the modernization process entails the expansion and frequency of a wide range of traditional and emerging risks- Natural and industrial catastrophes, terrorism, pandemics, demographic (i.e. increasing life expectancy, dependance), health, etc.
- To a society of “threat” : Mediatisation and globalisation of modern societies also result in an accute perception and information on potential risks and probably a lower level of tolerance to risk.
- Social protection and coverage -health, retirement, income replacement- provided by governments and other forms of solidarity are shrinking :
 - ⇒ Greater individual responsibility for these coverages
- In most countries, incomes per capita are growing creating needs for the protection of new goods and assets.

➔ Role of insurance to cover these risks and needs is inflating

I. Why Financial Education on Insurance Issues should be strengthened?

(2) Yet, on the one hand, insurance business remains complex, sophisticated and opaque ...

➤ **Increasing variety and complexity of insurance products**

- ✓ Technicity of insurance business: **inversion of business cycle and information asymmetry**
- ✓ **Parameters and actual cover provided by insurance policies often remain obscure** to non-professionals customers (contracts' conditions, ceilings, deductibles, exclusion, trigger for coverage, etc.)
- ✓ A **wide range of tailored products** to cover different types of risks and needs for protection
- ✓ **New products that transfer more risks/choice/responsibility to consumers** : exponential development of *unit-linked policies* in many countries

➤ **Complexity of the market and heterogeneity of the various providers**

- ✓ Various types of insurance structure: **profit/non-for-profit, foreign, “bancassurer”** in many emerging countries
- ✓ **Various kind of conventional** (brokers, agents, direct selling) **intermediaries** and **new selling channels** (phone, cell, *internet*),
- ✓ **Development of non- traditional providers and distributors** (banks and more surprisingly supermarkets, car-dealers, etc.)

➤ **Regulatory and supervisory regulation responses are necessary but not entirely satisfactory and sometimes counterproductive**

I. Why Financial Education on Insurance Issues should be strengthened?

- (3) **And, on the other hand, surveys reveal a poor level of insurance literacy and awareness amongst the population:**
- General lack of awareness of individual risk-exposure and needs and of the wide range of risks, which are also difficult to prioritise
 - Insufficient understanding of the protection offered by insurance providers: Little experience of some of the new, long-term products and of their implication relative to risk transfer, difficulties in understanding policies' features
 - Lack of awareness of the lack of knowledge and understanding
 - Consumers' myopia : lack of willingness to subscribe long-term coverage or coverage for relatively unfrequent risks
 - Lack of trust and confidence in insurance market players (Equitable in the UK, Spitzer's investigations into the insurance sector) ; negative connotation of insurance
 - Lack of an 'insurance culture' especially in emerging economies

I. Why Financial Education on Insurance Issues should be strengthened?

(4) Lastly, FE initiatives relative to the insurance sector remain rare and scattered:

- Awareness of the potential importance and role of Financial Education in the insurance sector is slowly getting higher on political and industry agenda and priorities
- Lack of a pro-active and coordinated approach: generally, if any, FE projects in the insurance sector bring together a wide and disparate range of initiatives from various actors often pursuing different goals
- Little assessment of the needs in insurance education of citizens/consumers and of the specific needs of particularly affected segments of the population
- Insufficient appraisal of the impact of FE programs

II. Adverse effects (1)

of insufficient insurance awareness and literacy

For Consumers/households :

- Lack of coverage : uninsured individuals for basic and long-term risks -e.g. health, retirement, income replacement, liability- and large-scale risks – e.g.natural and industrial catastrophes, terrorism- may face dramatic situations in case of losses
- Inappropriate coverage (underestimation/inappropriate or useless coverage) may also entail unexpected costs which may harm to various extents households' budget and well-being.
- The most fragile are the less covered/insured and potentially the most affected (poorest, women, children, elderly, rural populations etc) which create further inequalities
- Costs and length of litigation and redress

II. Adverse effects (2)

of insufficient insurance awareness and literacy

For Insurers/Intermediaries:

- Less developed and competitive insurance markets
- Costs of claims' litigation and complaints arising from badly understood products

For Governments and citizens

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

III. What can be done?

Objectives of Financial Education in the insurance sector

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 behavior as regards insurance issues**

III. Role of main insurance stakeholders in financial education

- The industry -traditional insurance providers, insurers/bancassurers and intermediaries- : quality information and objective advices
- Public authorities : various ministries and agencies (ombudsman, chamber of commerce, etc) involved in educating and informing consumers and possibly in coordinating other stakeholders' initiatives
- A wide range of non-governmental associations: consumer/investor associations involved in both the provision of information and the on-going education of consumers
- Corporations: in particular for the choice and management of group life-health insurance policies and pension products
- Consumers' responsibility and involvement in the learning process should be enhanced as well.

IV. Experiences to enhance financial literacy: **Means and stakeholders (1)**

- 1) Assessing consumers' needs/lacks in financial education as well as existing initiatives
 - What **risks/products** (e.g. large-scale, recurrent, complex/poorly known, long-term, involving significant risk transfer to policyholders)
 - What **population** (e.g. all citizens, targeted fragile audience)
 - What **type of information** (e.g. on products, their conditions, insurance market players, other)
 - What are the **means, stakeholders and initiatives** at hand?
 - How to measure the **efficiency of programs**?

- 2) Enhancing Insurance Awareness, Education and Instruction
 - **“Educating the educators”**: e.g. teachers (Japan), the media (Poland)
 - Integrating **basic insurance notions into school programmes**
 - **On-going training/personalised advices** : role of associations of consumers/insurers, ombudsman, other public bodies (chamber of commerce)

IV. Experiences to enhance financial literacy: **Means and stakeholders (2)**

- 3) Enhancing the quality, accessibility and visibility of information on insurance from various stakeholders
 - Internet/Website : developed by Insurance supervisory authorities, association of insurers/intermediaries/consumers
 - Paper materials : guides, brochures, newspapers
 - Media Campaigns (TV, radio), events/seminar, advertisements
 - Focused programmes to best reach diverse publics and the most deprived

- 4) Encouraging the industry to provide quality, material and synthetic information and “objective” advices
 - Role of adequate disclosure requirements for particularly complex (life, dependance, unit-linked) or current (motor TPL) products
 - Monitoring the advisory role of intermediaries and insurers
 - Industry voluntary selling good practices and standards (Canada, Japan, UK, US)

IV. A few emblematic experiences (1)

Assessing and strengthening insurance literacy and understanding

- Korea- Korean Insurance development institute: Assessing the extent of awareness and the existence of an insurance culture among potential consumers
- Poland-Polish insurance chamber : Assessing and strengthening media's awareness and sensitising them to insurance issues -Making insurance more attractive and visible
- Italy- ISVAP : Reaching a large audience (comprehensive-userfriendly website / national newspapers)
- UK- FSA: developing a comprehensive strategy to assess FE programs

IV. A few emblematic experiences (2)

Raising risk awareness and the importance of coverage and prevention against large-scale catastrophes

- Japan:- General Insurance Association of Japan : “Exploration for disaster prevention”
- Mexico-CNSF/FONDEN: Enhancing catastrophic risk-exposure awareness
CONDUSEF: Developing a comprehensive website (information on contracts, coverage, insurance companies’ situation, redress mechanisms, etc)
- Israel- Awareness campaign against natural disasters

V. OECD Financial Education project on insurance issues

- 1) Data collection of OECD experiences, initiatives and programmes
- 2) Analysis of the challenges of financial education in the insurance sector
- 3) Overview of OECD public and/or private projects and programmes to improve risk/insurance awareness and literacy
- 4) Development of good practices for education and awareness relative to insurance issues

V. OECD GOOD PRACTICES FOR EDUCATION AND AWARENESS RELATIVE TO INSURANCE ISSUES (1)

Aim and scope :

- Supplement OECD principles and good practices on Financial education

Structure :

- Main stakeholders' role: public authorities, insurance undertakings, intermediaries and distributors and other social and business partners
- Methodology: assessment and tools

V. OECD GOOD PRACTICES FOR EDUCATION AND AWARENESS RELATIVE TO INSURANCE ISSUES (2)

Selected Debated Issues :

- Should insurance issues be included in students' curriculae?
- How to best raise teachers/media's knowledge and awareness on insurance issues? how to best reach diverse publics?
- How to best ensure that insurance intermediaries are playing a proper role in providing advices to consumers and clients?
- What is quality, unbiased information as opposed to quantity information?
- What role, if any, can be played by compulsory insurance in improving insurance awareness?
- Should ombudsman/ mediation tools be more systematically established to improve individual understanding and capabilities on insurance issues?



Preliminary conclusions: Ongoing work

- ✓ Financial education particularly for the insurance sector has only fairly recently gained importance on OECD and non-OECD political agenda
 - ✓ Lack of general awareness of the lack of awareness!
 - ✓ General lack of assessment of the efficiency of the very few programmes that are implemented on FE related to the insurance sector
- ⇒ *You are very much welcome to share with us successful experiences, initiatives and projects relating to Financial education and insurance in your countries.*



THANK YOU FOR YOUR ATTENTION!



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