

Financial education and Insurance*

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We begin with a few words to place our subject in the context of the theme of this conference. The theme is “Financial Education”. Insurance is recognised as an important part of the financial services sector. In India we are concerned about the need to achieve better level of penetration of insurance. In a population of 1100 million people the number of lives insured at any time perhaps is only about 15 to 16%. The penetration of insurance is low at less than 3%. Vast sections are uninsured or inadequately insured. This low penetration is primarily due to low levels of awareness of insurance. It is true of other financial services as well. In setting up the Insurance Regulatory and Development Authority the Government has highlighted their emphasis on ‘development’ aspect of insurance. A major hurdle to the development is low level of insurance awareness and insurance literacy. Awareness and literacy in the subject will have to be tackled through sustained efforts in education to achieve higher levels of penetration. Financial education has been receiving high level attention in many developed countries in the last several years. Our discussion on the issues relating to financial education including insurance in this conference is very timely.

Insurance literacy

Insurance literacy is the ability to read, analyze, manage, and communicate about the personal risk factors that affect material well being. It includes the ability to discern protection and savings choices, discuss insurance and related financial issues without discomfort, plan for the future, and respond competently to life events that affect everyday exposure to risk and financial decisions in the context of happenings in personal lives and in the economy. Countries such as USA, Australia, New Zealand, UK and others have taken considerable initiatives in this area as a part of steps in ensuring higher levels of financial literacy. It will be useful to look at some of these briefly.

UK

In the year 2000 Government of UK established ‘The Adult Financial Literacy Advisory Group’ with a direction ‘to make recommendations on ways to improve financial literacy of the adult population with a specific emphasis on those who are disadvantaged. This Group which had representation from all segments of financial services submitted a comprehensive report which is available for information of public. Insurance inputs were given by the Association of British Insurers and the FSA. Their mandate was to ‘consider how to promote better access to financial education to young people and adults’. This included all forms of insurance. They mandated necessary research to identify gaps in financial education among adults; identify good practices to replicate, and make recommendations that would secure maximum advantage. They made recommendations on ‘financial education to ensure adults are sufficiently confident and competent to make financial decisions, which

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may include an understanding of basic financial products and services, with specific attention on the most disadvantaged groups.’ It is easy to see that all these are relevant for education in relation to insurance in India. They set out to give recommendations regarding assessment of skill levels leading to informed decisions on appropriate products in savings and insurance.

USA

There are several institutions sponsored by the Federal and or State Governments and launched jointly with other ‘stake-holders in the insurance sector. There is one by name “Family Economics and Financial Education” (FEFE) launched jointly by the Montana State University and another organisation called ‘Take Charge America’. These have several arms and insurance is one. One mission is ‘to provide educators with no-cost curriculum materials and the skills and confidence to effectively teach **family economics and finance**.

In October 2002 a national symposium was organised by ‘National Endowment for Financial Education’ (NEFE). It was called “The state of financial literacy in America: Individual choices, National consequences’. The rationale for such an initiative was stated thus:

“As the financial system becomes complex placing increasing responsibility on individuals to manage details of their own finances, the burden is too much for most citizens, particularly low-income individuals. ... There is increasing evidence to show that a large percentage of people of all ages and incomes lack basic financial knowledge and skills to ensure long-term stability for themselves and families’.

Though these were stated in the overall context of financial education and literacy they apply equally well to Insurance. The rationale stated is valid in most countries and not necessarily confined to developed countries. The Group has made a set of valuable recommendations most of which are relevant to countries such as India.

The other significant contributor to efforts on financial literacy in the USA is ‘CPA Financial Literacy Resource Centre’ set up by the AICPA. Their motto is: ‘360 degrees of financial literacy’. They have several streams of activity including a ‘personal financial planning centre’ which covers insurance as well. A multi-faceted effort is being taken to improve financial literacy.

New Zealand

Insurance Council of New Zealand as a part of ‘The Enterprise New Zealand Trust’s Financial Literacy Programme’ has launched initiatives which include risk and insurance, in more than 100 schools. The Council is recognised as a resource in the area of insurance. The insurance segment has modules *inter alia* in the following areas:

Identifying types of Risk, how to minimise loss in a natural disaster, guide to personal insurance, FAQ in purchasing insurance, Identifying and evaluating sharing of loss, difference between indemnity and ‘replacement value insurance, guidelines for dispute resolution, Insurance Fraud information, Duty of disclosure, The Fair Insurance Code, Regulatory facts etc, etc.

Australia too is reported to have a similar approach and machinery.

India

There are several initiatives imparting Insurance education. All these are aimed to educate existing or potential employees to acquire knowledge and skills to get jobs and or further their career ambitions. IRDA had undertaken a sustained publicity campaign mainly to improve customer awareness and knowledge in insurance so that customers make informed decisions. The campaign would appear to have made some impact and it is not known in what manner this will be taken forward.

There is however one initiative that deserves mention. For the last few years the Mahila SEWA Sahakari Bank has been working Financial Literacy through their 'financial literacy' department or school. This includes insurance. This is a joint effort between the Citigroup and SEWA. They conduct needs assessment, curriculum development, training, seminars, workshops, market research in microfinance, etc. This needs to be replicated throughout the country in all areas of finance including insurance. Possibly there are similar initiatives in other parts of the country.

Some key points

1. Wider consequences leading to an undeveloped insurance market will be the reality if insurance literacy and education are not spread fast.
2. The well-being of the country through risk-management by all will depend upon the ability of people effectively manage their risk and finances.
3. It is a life-long process. With the fast-changing nature and needs of the target audience the task is daunting. For example, a whole generation waits to be educated on the need for retirement planning, consequences of debt-based consumerism and methods to protect themselves and their assets, coverage of hospitalisation expenses, increasing number of new home owners needing insurance protection etc.
4. Reaching youth everywhere is critical
5. Choices for the individual will widen, in keeping with the changing economic scenario, leaving buyers more confused
6. Distribution of information through appropriate channels if the messages have to reach all segments.
7. Must educate people to think in terms of establishing their financial goals and insurance goals in the context of their incomes and expenditure, and seek right products and services through the most appropriate channels.
8. To reach widely varying segments a 'story-telling approach' that has proved effective in other countries in reaching out to people.
9. Above all it must be realised that **joint efforts of Councils, Associations, Regulators, Government, Social service organisations and others are needed. Any single agency or organisation cannot generate the desired results.**

Who can play a role?

As stated earlier any one agency cannot possibly achieve meaningful results even over a long period. Collaboration across sub-sectors and across agencies will be necessary. All stakeholders should find ways of participating. It would mean allocation of their resources such as manpower, funds, material etc. A 'partnership' approach is needed. Schools, educators, Government, Regulator, media and journalists, employers, parents, intermediaries, insurers, NGOs, et al can contribute to the efforts in this vital effort.

Topics to be addressed

Budgeting, saving, risks, protection mechanisms, relative position of insurance in the financial sector, some basic details of insurance products, care to be taken in the choice of intermediary etc are some of the more important areas to be covered in insurance education. Insurance must be placed in its context as a financial service and not handled as a stand-alone service. Some attention has to be paid to the need for insurance to mitigate consequences of disaster including an economic downturn. The range of topics therefore will change periodically and the campaigns for literacy and education in insurance too have to keep up with the changes. Sustained efforts over long periods are therefore needed.

Segmentations of target audience and medium

Students, young employees and entrepreneurs, middle-aged family persons, elderly etc will necessarily have widely varying needs. Suggestions or solutions have to be tailored appropriately. Schools are a good medium through which youth can be educated. Curriculum at school and college level must be appropriately developed. At present students and youth know very little about any form of insurance. Whatever input is included in some institutions are oriented towards knowledge from the perspective of employment and career. Similarly those approaching retirement have to be handled through their employers or trade associations. It is possible to address 'women' as a distinct and different group with sub-groups no doubt. Women as wage-earners and or as managers of domestic money have to recognise as a separate target group requiring a distinct and different approach. At all stages and for all segments information on health insurance is in fact very much needed.

Role of Government

Departing from the role played by the Indian Government since the fifties we now see increasing evidence of liberalisation in all areas. In such a scenario we can look to Government to play only the role of a facilitator and not an active player in consumer education in insurance and in the wider financial services. There are however some things that Government can and should do. At the policy-making level Government may draft and publish a national policy on the subject of Financial Education including Insurance education and literacy. It is suggested that they should constitute an action-committee with members drawn from the respective sectors, academics, social development organisations, education policy makers etc., and give them a mandate to draw up a 'action plan document' on the subject. Perhaps Insurance may not yet justify constituting such a task force for exclusively for itself; insurance can be a sub-group of a main group on financial education. It would be advantageous to draw on the strategies, planning and execution of similar initiatives in some of the countries mentioned earlier in this paper.

Regulator

In a working Group as mentioned above the Insurance Regulator should have a strong voice. IRDA collects annual fees from all insurers and they would have resources to fund an initiative outlined in the last paragraph. They have the experience of conducting quite a few campaigns for the creation of awareness of insurance. Their involvement would be valuable. The insurance industry has two Councils that may become SROs in due course. Education of this nature usually would fall within their stated role. Actually this has been discussed at the Life Council meetings. There appears to be a willingness on the part of the regulator to support sustained campaigns by the councils to improve awareness and impart education in insurance. It however needs to be done within a structured plan, deliverables, budget, deadlines, monitoring mechanism, evaluation and measurement etc. In short this subject has to be placed in its recognised rightful place in the plan of the IRDA as a key component of their role to develop the insurance market in India.

Partnerships

Schools, educators, Government, Regulator, insurers etc., do know the benefits arising from spending resources in developing awareness and consumer education. No one singly can expect to deliver the desired results. It has been therefore realised in other countries that partnerships are more appropriate and powerful rather than single entities. Carefully drafted partnerships between business, educators, SHGs, Regulators, Government, schools etc., can tackle the subject collectively and come out with plans and action. This has better probability of achieving success in the long run. As outlined earlier a partnership between a bank and a women's welfare organisation has been successful in reducing financial illiteracy. It is a good example.

Some challenges specific to India

In considering any plan for educating a vast number of people in India it is important to be aware of the nature and extent of the unique impediments that will have to be faced. None of these are new; but these need to be highlighted.

Any campaign or action has to be designed for the following segments separately

- 1 Literate and others
- 2 Rural and Urban
- 3 Economic strata of the target groups
- 4 Employed, self-employed, seasonally employed and unemployed
- 5 Language of education

All these are very real issues in terms of designing any plan for education to improve literacy and awareness in a subject such as insurance. These will also bring challenges in terms of, costs, manpower to deliver education, trainers and reading-material in the various languages, accessibility-both physical and communication-related. Ways must be found to use television as a medium as also IT.

A national plan document in this regard has to involve a wide variety of people from all parts of the country. Curriculum has to be written in various languages. Imparters of the education have to travel far and wide to do their jobs. Using local social service

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organisations and SHGs would be of immense value. Voluntary organisations across the country can play a valuable role.

Another thought is that the Indian Post office is everywhere and one is tempted to suggest that involving them collectively would solve a whole set of issues though it may bring up some new ones. But from all accounts the postal department would be willing to make available their resources, locations and even manpower if a well considered plan is given, deliverables are clearly mentioned and above all they are ensured of revenue.

Insurance education within disadvantaged communities is best achieved by working through trusted local groups. There is need for a systematic approach to content, delivery, co-ordinating activity and spreading good practice.

The job is gigantic, necessary and would be beneficial. As stated earlier any one sector or sub-sector attempting to undertake these would face a difficult task with doubtful outcomes. It is advisable to try and draw up the plan for the financial sector as a whole with a sub-task force drafting a policy-chapter or two relating to the specifics of insurance. Optimisation of resources, minimisation of expenses, one-window implementation, one-window interaction with the target groups and individuals and above all faster achievement of the objective are all benefits arising from a holistic financial-sector approach. As stated earlier the examples in USA, UK, New Zealand and possibly other countries clearly show such an approach as the best one.

Some important perspectives

Education for adult financial literacy generally and insurance literacy in particular has never been systematically addressed. There is no defined curriculum or set of learning objectives. It is necessary to set out what insurance literacy means for adults, especially those at risk of coverage exclusion. It is also necessary to put in place mechanisms to measure the progress. IRDA should play a lead role in the development of insurance literacy and insurance education as it has role to promote public understanding of insurance and help develop the sector. In the industry the subject does not appear to have been adequately researched in order to arrive at a meaningful and sustainable plan of action for education. Efforts seem to be focused on products and methods of delivery. In our newly opened market companies and intermediaries are still savouring the excitement of opportunities and getting market-shares. The industry would be well-advised to take a long-term perspective in devoting time and efforts to improving insurance awareness and literacy through education, as these will greatly contribute to the growth of the market with benefits for all stakeholders.

For the future

In the context of rapid changes and reforms in the financial sector the need for financial literacy and consequently insurance literacy will increase or even assume urgency. This is so because individuals have to know more, so that they can take informed decisions when purchasing insurance and other financial products. Actually most people know that they need more information and advice in choosing a service or product. But they do not know where to get such advice because there is no organised neutral forum from which they can seek advice today. It is therefore said that the literacy issue in financial services and in insurance is an 'inclusive' one. People would welcome initiatives that help them in this area of insurance education.

As mentioned earlier it is important that national learning objectives and standards are set for adult financial literacy and insurance literacy so that all are equipped with the required skills to take care of their financial future. Education and initiatives should help people take meaningful and appropriate decisions suited to their individual circumstances, in all sectors within financial services. A national initiative is necessary to set the ball rolling. In short as someone quipped, 'insurance needs to be demystified' through education of the customer and by factual and simple information. The intervention through campaigns and education should be made periodically at appropriate stages in one's life such as leaving school, higher education, marriage, buying a home, retirement etc. In short one needs specific and focussed campaigns suited to each such stage or event in one's life. Considerable efforts are needed.

Creating contact network

Even if there are adequate efforts through media etc to make people aware of the key features in buying insurance the role of advice from trusted persons cannot be ignored. Any plans on education must include the creation of networks of trained and informed 'advisers' or 'helpers' who will play a significant role in this work. Research must be conducted as to which type or types of agencies can be entrusted with this vital role. In implementing such a plan the voluntary sector can play a good role particularly in contacting vulnerable persons. They should be able to function independently, gain and maintain trust of the individual customers, should have good knowledge of the fundamentals of the financial services and insurance and there should be a transparent fair and efficient process of accreditation by IRDA or the Councils etc. They should be able to work through partnerships with other local SHGs, quasi-government organisations etc. Attracting good talent to do these, remunerating and motivating them will be major challenge; but it cannot be ignored.

Media can play a role

All types of media can play important role in the effort to educate public on various aspects of insurance. Television, Newspapers, magazines etc. can be very effective in spreading the message of education in insurance. Discussion forums, articles, etc will help as well. Here again the collaborative effort with some of the other agencies will be effective.

Several Websites may have to be launched in as many languages as possible. Access to material for education, general information, contact information etc can be place don the websites for easy access. The role of media can be considered in the context of the pensions sector where we are about to see the launch of very far- reaching initiatives the role of media, web etc., not merely in the reporting of news and events but in publishing necessary information to educate people.

Standards and measurement

Any plan, the working of which is not measured periodically will not succeed. It is therefore necessary to put in place two features. First standards of insurance awareness and education to improve literacy should be prescribed after due consultations. School curriculum, subjects addressed in the field initiatives, etc should be covered in a document setting out standards. Further a mechanism should be found to measure the performance of a plan when it is launched. The correlation of the initiative to penetration levels, grievances can be established. May be difficult, not impossible.

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In conclusion

The ultimate outcome in due course should be not merely that people will have a few insurance policies, but that there are no individuals or families who are not reasonably familiar with the concepts of insurance, its products, means of delivery, grievance handling process, customers' rights etc. They would feel comfortable in transacting with the insurance companies and their representatives. When such a day dawns insurance will be bought and not sold. These can only be done through a participative, comprehensive, partnership oriented education initiatives within a well prepared plan.

Mumbai

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