



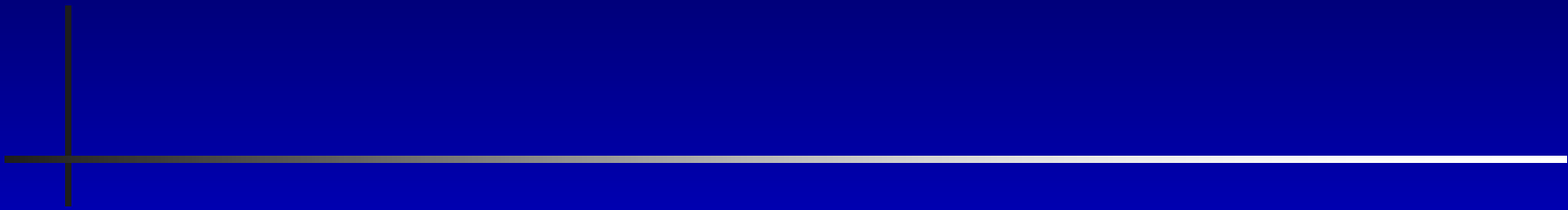
ENHANCING RISK AWARENESS AND EDUCATION ON INSURANCE ISSUES

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OUTLINE

- I. Why risk awareness and education on insurance issues should be strengthened?
- II. Adverse effects of insufficient insurance literacy
- III. What can be done? OECD role and suggestions
- IV. International Good Practices



I. Why risk awareness and education on insurance issues should be strengthened?

(1) Increasing individuals' responsibility for risk coverage

- **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.
- **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 needs for protection of new goods and assets.

➔ **Role of insurance to cover these risks and needs is enhanced**

(2) Information Asymmetry :

Insurance business complexity and sophistication

- **Increasing variety and complexity of insurance products**
 - ✓ **Technicity of insurance business and complexity of insurance policies**
 - ✓ **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 insurance distributors**
 - ✓ **Various types of insurance providers, intermediaries and new selling channels** such as internet
 - ✓ **Development of non-traditional providers and distributors :** banks and more surprisingly supermarkets, car-dealers, etc.

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

(3) Education asymmetry:

Surveys reveal a poor level of risk and insurance awareness and education of consumers

- **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 by insurance providers:**
 - 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

Surveys reveal a poor level of risk and insurance awareness and education of consumers

- **Consumers' myopia vs "insurance culture" : lack of willingness to subscribe long-term or unfrequent risks insurance coverage; Lack of trust and confidence in insurance market players**
 - In the US, 20% of young adults would rather let their auto insurance policies lapse to save money

- **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

II. Adverse effects of insufficient risk and insurance awareness and education

(1) Risks of further social and economic exclusion for some individuals

- **Lack of coverage for severe risks:** US - only 25% of home in areas liable to flooding have flood insurance cover
- **Inappropriate coverage :** Australia – between 27% and 81% of consumers are underindured by 10% or more againsts current rebuilding costs
- **The most vulnerable** are the less covered/insured and potentially the most affected : poorest, women, young, elderly, rural populations, immigrants, etc.
- **Costs and length of litigation and redress**

(2) Social and economic costs for:

Insurers and Intermediaries

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

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?

OECD work and role:

**Suggestions for Good Practices
to Enhance Risk Awareness and
Insurance Education**

(1) Proposed objectives for education on risk and insurance

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 their risk exposure and insurance coverage**

(2) Roles of main insurance stakeholders

- **Public authorities** : various ministries (financial, economic, education) and agencies (supervisory and regulatory authorities, ombudsman, chamber of commerce, etc)
 - ⇒ Educating and informing consumers and possibly coordinating other stakeholders' initiatives
 - ⇒ Case for compulsory insurance

- **The insurance industry** : insurers/bancassurers and intermediaries
 - ⇒ Quality information and objective advices
 - ⇒ Non-commercial education activities

- A wide range of **other social and economic stakeholders** : Insurers/Intermediries/consumers' associations, corporations and trade unions

- **Consumers' responsibility**

(3) Means and Programmes

Assessing consumers' needs in insurance literacy

- **Risks/products:** large-scale, recurrent, complex/poorly known, long-term, involving significant risk transfer to policyholders
- **Vulnerable groups:** young, older, immigrants, low income, living in risk prone area
- **Types and content of information:** products and their conditions, insurers, timely plain accessible language, tips
- **Passive Behaviors**

Developing Insurance Instruction

- **Educating the educators:** Teachers, the media, parents
- Integrating **basic insurance notions into school programmes and curricula**
- **On-going training/personalised advices** : taking advantage of **teachable moments** (risk situation, changing family, professional, health situation)

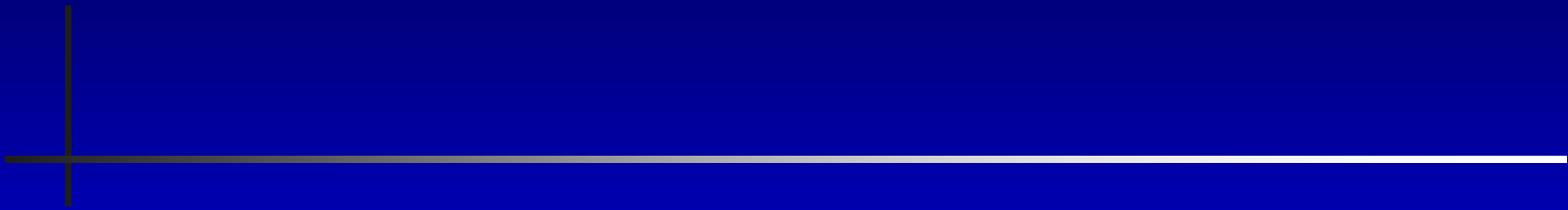
(3) Means and Programmes

Using a variety of tailored tools and media

- **Paper materials**
Guides, brochures, newspapers
Accessible plain language
- Internet/Website**
Interactivity, calculators
- **Broad Media Campaigns**
(TV, radio, newspapers),
events/seminar, advertisements

Evaluating programmes' use and efficiency

- **Predetermined Criteria**
- **Cost and benefit approach**



IV. International Good Practices

(1) Raising awareness on the importance of coverage and prevention against large-scale risks

- **Japan**- General Insurance Association of Japan : “Exploration for disaster prevention” for elementary school children
- **Mexico**-FONDEN: Enhancing catastrophic risk-exposure awareness for school children
- **Israel**- Awareness campaign against natural disasters
- **US**- Association of health insurers (AHIP)- Raising awareness on health risks and literacy

(2) Assessing and strengthening insurance literacy and understanding

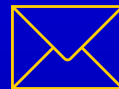
- **Korea- Korean Insurance development institute:** Assessing the extent of awareness and the existence of an insurance culture among potential consumers
- **Poland- Polish insurance chamber :** Assessing and strengthening media's awareness and sensitising them to insurance issues
Making insurance more attractive and visible
- **Italy- ISVAP :** Reaching a large audience through a comprehensive-userfriendly website and advertisement in national newspapers
- **US- NAIC- website:** Assessing consumers' needs according to their situation and age groups

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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