



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

**VIII OECD/IAIS/ASSAL  
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Supervision in Latin America**

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# OUTLINE

- I. Importance of strengthening risk awareness and education on insurance issues
- II. The challenge of raising poor level of risk awareness and insurance culture and capability
- III. What can be done?
  - ❖ OECD Good Practices for Enhanced Risk Awareness and Education on Insurance Issues
  - ❖ International Relevant Experiences
- IV. Policy conclusions and future OECD work

## **(1) Importance of raising risk awareness and education on insurance issues**

- **Increased individuals' exposure and responsibility for managing diverse risks (i.e. large-scale disasters, longevity and health-related risks)**
- **Importance of raising awareness on the importance of seeking protection against these risks including through private financial and insurance vehicles**
- **Increasing importance of the insurance sector as a risk absorber for the overall society and economy**
- **Complexity and diversity of traditional and new –unit-linked-insurance products to meet these needs for coverage**
- **Importance of improving education and capability on insurance issues and products**
- ***Limit : Awareness and education can not substitute to appropriate insurance regulatory and supervisory framework to protect consumers***

## **(2) Gaps in Risk Coverage**

- **Lack of coverage or inappropriate 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**  
**On average, 92.6% of economic losses arising from disasters are not insured and are therefore borne by the population**
  - **The most vulnerable are the less covered/insured and potentially the most affected**  
**US, the poorest, the youngest and the eldest are the less covered for their health care**
- ➔ This may lead to social and economic exclusion of some segments of the population in both OECD and emerging economies**

### **(3) Adverse effects on the economy and society**

#### **Insurers and Intermediaries**

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

#### **Governments and citizens**

- Additional public expenditures for 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 awarenes 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**
  - Japan, after the Great Hanshin-Awaji Earthquake in 1995 – recognition of the low level of public awareness on the risk and on the coverage possibilities
- **Insufficient understanding of the mechanisms and benefits offered including through insurance mechanism**
  - Korea, only a quarter of consumers understand the terminology of home owner insurance adds
  - After Katrina in the US most households did not know that damages caused by flood were excluded from their homeowner insurance policies
- **Lack of awareness of the lack of knowledge and understanding of the products-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
- **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
  - France, most households consider themselves ill-equipped to choose an life-insurance-investment strategy, and do not compare life-insurance investments products

## (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, of individuals who consider themselves "financially knowledgeable", 78% do not have long term care insurance**
- **Samaritan dilemma: reliance on the assistance of the state**
  - **In Turkey, TCIP- remaining relatively low insurance penetration of earthquake insurance -18%**

## **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 coverage 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 Project on Financial Education*

# OECD Project on Financial Education

- Main outcomes of OECD Comprehensive Financial Education project started in 2003:
  - ❖ Recommendation on Principles and Good practices for Financial Education and Awareness
  - ❖ Publication of *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
  - ❖ Organisation of international events: India (September 2006), G8 conference in Moscow (November 2006), International Seminar on risk awareness and education on insurance issues (April 2007).
  
- 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  
based on international relevant  
experiences*

# Framework of the Good Practices

- 1) Objectives**
- 2) Role and responsibilities of main stakeholders**
  - Public Authorities**
  - Insurance market players**
  - Other social and business partners**
- 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 advice 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 (i)

### ➤ Public authorities

- ❖ **Coordination** of other stakeholders' initiatives and the media : specialized framework/programme
- ❖ **Assessment** and survey of individuals' vulnerability, risk-exposure and needs for increased risk awareness and insurance education and capability
- ❖ **Education** (possibly through school curricula and specialised classes) and on-going training of individuals on their responsibilities vis-à-vis risks, mitigation and coverage possibilities including through insurance mechanisms
- ❖ Promotion of **broad awareness and education campaigns** on risks and insurance products also targeting vulnerable groups and adapted to various public needs
- ❖ **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
  - ✓ Encouraging the development of adapted insurance products (e.g. tax-incentive, micro-insurance (easier licensing), and appropriate information disclosure and advice (simple and appropriate language)

# *Relevant International experiences*

- *Development of coordinated programmes with various stakeholders -US, UK, Australia, the Netherlands*
- *Assessment of consumer understanding of insurance products -on a yearly basis, Korean Insurance Development Institute, NAIC's survey on US consumers*

## ***Awareness and Education Campaign***

- *Italy- ISVAP: launching of national campaign website, newspaper campaign*
- *India- IRDA : radio and television programmes in 11 languages*
- *US - NAIC : “InsureU”*

## ***Regulation***

- *Turkey: mandatory earthquake insurance*
- *Japan: tax deductible on household earthquake coverage*
- *India: more flexible regulation on micro-insurance products*

## **(2) Roles of main stakeholders (ii)**

### **➤ Insurance market players**

#### **Commercial activities**

- ❖ 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, neutral and accessible information that can be distinguished from advertisement- and advice adapted to individuals' risk exposure and needs (adoption of codes of conduct)
- ❖ Appropriately trained staff selling insurance products in particular complex and long-term insurance products
- ❖ Establishment of interactive websites to provide further comparable information and advice on insurance products

#### **Non-commercial activities**

- ❖ Promotion and development of prevention campaigns aimed at raising risk awareness
- ❖ Elaboration or sponsoring of neutral materials or specialised institutes for public education and training programmes

# *Relevant International experiences*

- *Micro-insurance - India –broad regional health micro-insurance programmes cover a large share of the population in remote area with successful and sustainable results*
- *Development of codes of conduct for selling insurance products by association of insurers and intermediaries in many OECD countries – assessment of customers satisfaction – ABI in the UK*
- *Risk awareness campaigns: General Insurance Association of Japan: earthquake risk and insurance campaign, car safety prevention and eco-safe driving (use of the media)*
- *Elaboration of training material : German Insurance Association, Belgian Insurance Association, Turkish insurance and reinsurance association*

## **(2) Roles of main stakeholders (iii)**

- **A wide range of other social and economic stakeholders and local networks**
  - ❖ **Corporations and Trade Unions**
    - Assessment of employees' needs for information and education
    - Information and advice on available occupational coverage
    - Dedicated training on risk mitigation, prevention and coverage and on improving employees' capacities on insurance issues
  - ❖ **Other local networks and public servants**
  - ❖ **NGOs**
- **Individuals' responsibility**

## **(3) Means and Programmes (i)**

- | <b>Assessing and targeting individuals' needs</b>     | <b>Developing awareness and education on risk and existing coverage</b>     |
|---|---|
| ➤ <b>Severe risks/complex products</b>                | ➤ <b>Educating the educators</b>  |
| ➤ <b>Vulnerable groups</b>                            | ➤ <b>Integrating basic risk and insurance notions into school curricula</b> |
| ➤ <b>Types and content of information on products</b> | ➤ <b>On-going/long-term approach</b>  |
| ➤ <b>Passive behaviours</b>                           | ➤ <b>Possible case for compulsory or default options coverage</b>           |

# *Relevant International experiences*

- *Specific guides developed by branches of business and in particular life insurance – unit-linked- products and long-term care in most OECD countries and in Israel*
- *More emphasis on quality information : development of information note -summary profile of main conditions of life insurance products (e.g. France, Belgium, Italy, Spain)*
- *Vulnerable groups: trying to develop an understandable message: website in several languages (NAIC – Spanish)- TV programmes (India)*
- *Promotion of products and channels adapted to vulnerable groups' needs – micro-insurance (India)*

# *Relevant International experience*

- *Educate the teachers (training and dedicated materials in the US- Insurance Education Institute, Japan, Austria), parents (US, UK) and the media (Poland and Japan), local network (UK- health services, employers)*
- *Take advantage of teachable moments:*
  - *US, large media ( TV, newspapers, etc) campaign on large-scale risks and floods after Katrina*
  - *UK, at the work place : development of a workplace education programme by the FSA in collaboration with the Association of British Insurers*
- *On-going training : UK-FSA different life stages (school, young adults, parents, workplace, online, consumer communications, etc)/ US (NAIC)*

## **(3) Means and Programmes (ii)**

### **Evaluating initiatives' Effectiveness and Efficiency**

**Using a variety of  
tailored tools**

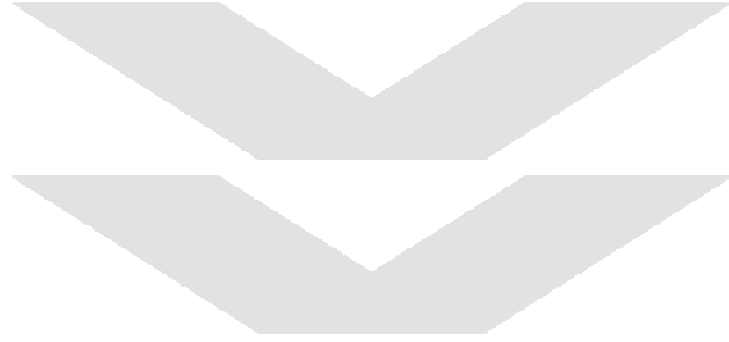
- **Channels:  
paper, internet, hotline**
- **Broad media  
campaigns and events**
- **Partners including  
local and dedicated  
networks**
- **Simple and attractive  
message**

➤ **Predetermined  
criteria**

➤ **Cost-Benefit  
approach**

# *Relevant International experiences*

- *Various tools: Israel -development of a dedicated website for the Insurance Commissioner and radio broadcasting advertisement on the radio*
- *Modern devices: interactive websites-NAIC Hotlines providing assistance and advices to consumers on insurance issues (e.g. Austrian Insurance association, Klipp+Kar in Germany, Spanish ), TV campaigns*
- *Events : Japan- disaster prevention map contest*
- *Appealing and simple message : “InsureU”; “make the most your money”*
- *Evaluation : increased insurance penetration – Japan earthquake insurance/ UK FSA*



## IV. Policy conclusions and OECD future activities

# Policy conclusions and challenges ahead

## Policy challenges and goals...

- ✓ Lack of awareness and education of individuals and governments on risk and insurance issues **is a key challenging issue for society and individuals**
- ✓ Awareness, education and capabilities on risk exposure and available coverage- including insurance mechanisms- are becoming **essential life skills**
- ✓ Appropriately designed national and international programmes **can make a difference- but this will take time**
- ✓ **Win/win situation** that will benefit the whole society and economy

## ...and means

- ✓ Involve a **wide range of trusted stakeholders** (public, private and NGOs )
- ✓ Use a **variety of channels** (e.g. education, training, local knowledge, media, internet, events, tax incentives and compulsory coverage)
- ✓ **Keep the message simple and engaging**: Develop adapted tools to the target audience's needs
- ✓ **Do not assume you know what people want**: Seek ways to better assess and 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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