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

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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 homes in areas liable to flooding have flood insurance cover

- **Inappropriate coverage**: Australia - between 27% and 81% of consumers are underinsured by 10% or more against 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. 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/Intermediaries/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, user-friendly 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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