



ENHANCING RISK AWARENESS AND CAPABILITY

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on the Management of Large-Scale Catastrophes**

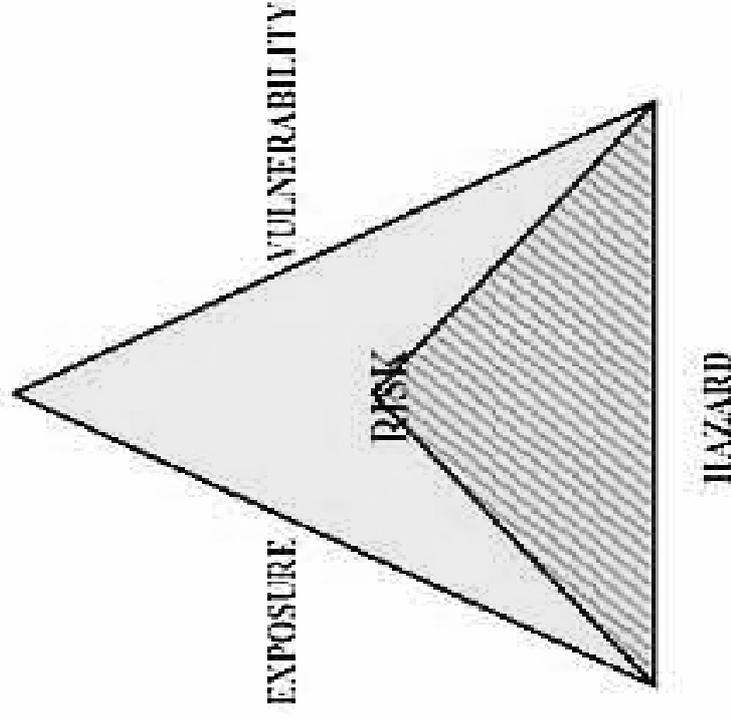
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WHAT IS "RISK"?

Concept of risk combines our understanding of the likelihood of a *hazardous event* occurring, with *an assessment of its impact*.

Impact of a hazardous event depends on the elements at risk -*exposure*, such as population or buildings, and their associated *vulnerability* to damage or change as a result of the event.

→ Risk can mean different things to different people



OUTLINE

- I. Difficulties in Predicting and Assessing Growing Hazard Exposure and Vulnerabilities
- II. Importance of and Challenges in Enhancing Awareness on and Responsiveness to Potential Impacts of Large-Scale Disasters
- III. What can be done?
 - OECD Good Practices for Enhanced Risk Awareness and Education on Insurance Issues
 - International Endeavours to Improve Risk Awareness and Literacy
- IV. Policy Conclusions and Future OECD Work on Risk Awareness

I. Difficulties
in Predicting and Assessing Growing
Hazard Exposure and Vulnerability to
Large-Scale Disasters

(1) Emergence of a “risk society” : Increasing frequency and severity of large-scale risks

Modernization and globalization trends suggest an expansion and increased frequency of a wide range of traditional and emerging disasters with potentially devastating consequences on the smooth functioning of the economy, society and individuals’ wellbeing

- **More severe natural catastrophes and uncertain consequences of global warming**
- **Industrial and technological disasters**
- **Terrorism attacks on a greater scale**
- **Demographic evolutions**
- **Known and emerging pandemics**

(2) Difficulties in Assessing exposure and vulnerability to hazards

- On a global scale, assessing risk exposure is challenging even for technical experts
 - Evaluating the precise particular consequences/damages potentially stemming from large-scale risks is even more daunting for non expert households and corporations
- At the same time, individuals :
- *Are more exposed and vulnerable to the potentially dramatic consequences of disasters*
 - *Have greater needs to make important decisions as regards mitigation measures and coverage*

II. Importance of Enhancing Awareness on and Responsiveness to Potential Impacts of Large-Scale Disasters

(1) Gaps in risk coverage/mitigation

- Low level of coverage/prevention of individuals and their property in OECD for certain risks and in emerging economies
 - **Differences between global damages and insured losses and between Emerging and OECD countries**
 - **Under coverage even in risk prone area**
 - **Vulnerable groups are more at risk**
- Risk assessment processes in corporations could be further strengthened
- Inadequate coverage: under coverage of assets at risks
- ➔ Increased costs of disasters for individuals, the overall economy and community and governments may justify social intervention to enhance risk awareness and promote mitigation measures

(2) Rationale for these gaps : Objective vs. Subjective reasons

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 decisions and act with a view to sensible and rational reasons

(2) Rationale for these gaps : Insufficient information and awareness?

- General lack of awareness and assessment of most important risk exposures and coverage needs
- Insufficient awareness and understanding of the protection offered by public and/or private insurance schemes against large-scale disasters

(2) Rationale for these gaps: Passive behaviours as regards risks

- Passive behaviour as regards coverage and mitigation measures
- Lack of trust and confidence in institutions providing coverage and in ex-ante solutions
- Consumers' myopia and procrastination vs. "insurance/preventive culture"
- Reliance on ex- post assistance from the State

(3) Challenges of communication and intervention on risk

2 purposes:

- ❖ Appropriate information on risk: likelihood of disasters and their consequences in an uncertain environment
- ❖ Changing individuals and corporations' behaviours towards risks

III. What can be done?

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

OECD Project on Financial Education and Role in Raising Risk Awareness

- **Main outcomes of OECD Comprehensive Financial Education project started in 2003:**
 - **Development of a Recommendation on Principles and Good practices for Financial Education and Awareness (June 2005)**
 - **Publication of the first major international study on financial education *Improving Financial Literacy: Analysis of Issues and Policies* (November 2005).**

- **Work of the Insurance and Private Pensions Committee focused on assessing, surveying and elaborating policy guidance relative to risk awareness and education on insurance issues**

- **Elaboration and finalisation of a set of *Good Practices for Enhanced Risk Awareness and Education on Insurance Issues***

Rationale:

- **Increased individuals' exposure and responsibility for managing diverse risks (i.e. large-scale, 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**
- **Complexity and diversity of financial (including pension products) and insurance products to meet these needs for coverage**
 - **Importance of improving education and capability on financial and insurance products**

Outline :

- 1) Objectives and Framework**
- 2) Role and responsibilities of main stakeholders**
 - **Government**
 - **Insurance market players**
 - **Other social and business partner**
- 3) Programmes and means**

(1) Core Objectives of the 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 advices 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

- **Public authorities** : various ministries and agencies
 - ❖ Assessment of risk–exposure and mapping of risk-prone area
 - ❖ Survey of individuals’ needs for increased risk awareness and literacy
 - ❖ Education and information of individuals on risk, preventive measures and existing coverage
 - ❖ Development of broad awareness campaign also targeting vulnerable groups and adapted to various public needs
 - ❖ Coordination of other stakeholders’ initiatives and the media
 - ❖ Regulation: possible introduction of compulsory insurance (at affordable rate) for severe risks in risk-prone area and/or for vulnerable groups
 - ❖ Assessment of interventions and initiatives

(2) Roles of main stakeholders

- **The insurance industry** : insurers/bancassurers and intermediaries
 - ❖ Assessment of and Information on individuals' and corporations' risk exposure
 - ❖ Promotion and development of prevention campaigns aimed at raising risk awareness against specific risks
- A wide range of **other social and economic stakeholders and local networks**
- **Individuals' and corporations' responsibility**

(3) Means and Programmes

**Assessing and targeting’
individuals/corporations
needs as regards risk**

**Developing awareness and
literacy on risk and existing
alternative coverages**

➤ **Educating the educators**

➤ **Selected risks**

➤ **Integrating basic risk
prevention assessments and
insurance notions into
school programmes and
curricula**

➤ **Vulnerable groups**

➤ **Types and content of
the information**

➤ **On-going/long-term
actions/training**

➤ **Passive behaviours**

➤ **Possible case for
compulsory coverage**

(3) Means and Programmes

Using a variety of tailored tools

- **Paper materials**
- **Internet/Website**
- **Broad media campaigns**
- **Local network and knowledge**

Evaluating initiatives' Effectiveness and Efficiency

- **Predetermined criteria**
- **Cost and benefit approach**

III. What has been done?

Selected International Experiences

Public and private initiatives aimed at raising awareness on the importance of prevention and coverage against large-scale risks

- **School prevention**
 - Japan- General Insurance Association of Japan : “Exploration for disaster prevention” for elementary school children
 - Mexico-FONDEN-FOPREDEN: Enhancing catastrophic risk-exposure awareness for school children
- **Communication campaigns**
 - US- Flood campaign after Katrina and in California in order to increase insurance coverage penetration against earthquake
- **UN Disaster risk reduction programme**

IV. Conclusions and Possible Future OECD Project on Risk Awareness

Main policy conclusions : ongoing work

- ✓ Improving risk assessment devices and efficiency of mitigation measures at global, domestic and local levels
- ✓ Promoting risk awareness as a national and international long-term policy goal
- ✓ Involving a wide range of public, private and NGOs stakeholders
- ✓ Using a variety of tools (education, information, local knowledge, media, internet)
- ✓ Enhancing knowledge and understanding of the target audience's needs
- ✓ Seeking ways to better address difficulties in modifying individuals' behaviours : assessment of programmes reveal mixed results
- ✓ Considering the introduction of default mechanisms for most severe and under-covered risks

Possible Future OECD work

- Individuals' behaviours and best ways to communicate on risks
- Series of Handbook on how to best address and raise awareness and coverage on selected risks
- Case studies and assessment of selected programmes aimed to raise risk awareness
- Other possible activities under the aegis of the network

⇒ *You are very much welcome to share with us successful experiences, initiatives and projects relating to raising risk awareness and education on (insurance) coverage in your countries.*

**THANK YOU FOR YOUR
ATTENTION!**



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