

**AWARENESS AND EDUCATION ON RISK AND INSURANCE
REVISED ANALYTICAL AND COMPARATIVE REPORT**

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EXECUTIVE SUMMARY

In OECD member and non-member countries, education in the insurance area has to address particular challenges linked, on the one hand, to the needs for enhanced awareness of households on their risk exposures and on the importance of choosing protection through private insurance vehicles against such risks and, on the other hand, to the complexity and diversity of insurance products and policies, as well as to the heterogeneity of insurance providers and distribution channels.

Against this backdrop, relatively few countries have already elaborated coherent insurance-specific projects aimed at precisely assessing consumers' needs for increased risk awareness and education on insurance issues and at attempting to best cope with possible shortcomings.

In this respect, the awareness of the needs for risk awareness and education in the insurance sector seems to progressively emerge through scattered actions of various stakeholders or the insertion of insurance issues within wider financial education programmes. These initiatives often pursue different goals including instruction, information and advice to consumers and policyholders in the insurance field as well as the assessment of their needs for education and insurance coverage. In this context, financial education should be distinguished from both consumer protection and regulatory requirements promoting the provision of specific list of information to policyholders by insurance undertakings and intermediaries. Within the financial education approach, information disclosure is considered as one of the various tools that can contribute to enhance the awareness, understanding, capability and responsibility of households as regards risks and insurance products and to guide them in making sensible choices.

The education process in the insurance sector typically involves different types of stakeholders ranging from insurance entities, intermediaries and other insurance providers and distributors to various public, private players as well as NGOs (i.e. various governmental bodies and supervisory authorities, associations of insurers, consumers, corporations, institutes, forums various local associations) and to consumers themselves.

Stakeholder, according to countries' circumstances and particular needs, may fulfill different roles in the education process using various types of programmes and tools in order to best reach various kind of audience and in particular the most vulnerable.

Drawing from OECD experience, it seems that any state intervention regarding awareness and education on risk and insurance should not seek to substitute for, but rather endeavor to coordinate existing private initiatives and should be elaborated with a view to assessing its impact, possibly through a cost/benefit approach.

INTRODUCTION DEFINITION AND SCOPE OF THE REPORT

1. The importance of insurance products is undoubtedly expanding. In OECD countries¹, they feature at all stages in the lives of individuals, their immediate families and their relatives (birth, education, healthcare, income replacement, incapacity, invalidity, risk of dependency, third party liability, major risk, property damage, pensions, savings, annuities, and so on).

2. Households should be encouraged and provided with the possibilities to enhance their awareness and their responsibility relative to the coverage of their overall risk-exposure as well as their understanding and knowledge of insurance products and markets. Yet relatively little research has been undertaken on the subject. Most often, the question of education in insurance is handled within the broader framework of general financial education. This sort of broad-brush approach seems relevant since it means, in principle, that potential consumers and policyholders can be given a better understanding of financial products and mechanisms as a whole. However, the complexity of insurance products and diversity of providers, along with the increasingly essential roles of insurance, are sufficient reasons for taking a closer look at how well various classes of citizens actually understand them and for better appraising possible needs in this respect.

3. Of course, it is certainly not possible to specify a level of consumers' education in the insurance area that could be considered ideal in all cases. In this respect, individual countries are certainly best placed to assess possible needs for enhanced education of consumers in the insurance area according to their particular circumstances and the precise role and scope of insurance markets in their country. Moreover, the development of policies and programmes aimed at improving consumers' education should probably build to the extent possible on private and/or public initiatives already in place and not seek to replace or duplicate them.

4. Taking this into account, for the sake of this study, objectives and definitions of financial education in the insurance sector will therefore remain broad acknowledging that they should be adapted to specificities and policy choices of individual jurisdictions. In this respect, with a view to the overall definition developed in the context of the OECD 2005 study: *Improving Financial Literacy: Analysis of Issues and Policies*, financial education adapted to the insurance sector *is the process by which individuals improve their understanding of risk and insurance products and concepts and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of insurance and financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to ensure an adequate coverage of their risk-exposure profile on the long run.*

where:

- *Information involves providing consumers with facts, data, and specific knowledge to make them aware of their risk exposure and insurance opportunities, choices, and consequences;*
- *Instruction involves ensuring that individuals acquire the skills and ability to assess and understand their risk exposure as well as insurance terms and concepts, through the provision of training and guidance; and*

- *Advice involves providing consumers with counsel about important risks and generic insurance issues and products so that they can make the best use of the information and instruction on risk and insurance issues they have received².*

5. Education in the insurance area is to be understood and developed in a regulatory context that seeks to create the conditions, especially in terms of policyholder protection and enhancement of overall market integrity and transparency, in which education's core objectives can be achieved. However the regulatory framework and consumer protection needs to be distinguished from the education process. There are indeed overlaps between the two notions inasmuch as both deal to some extent with the disclosure and provision of information on insurance. On the one hand, education on insurance issues goes beyond the provision of information: it seeks to integrate the provision of quality (i.e. reliable, objective, intelligible and relevant) information on risk coverage and insurance products but with a view to the proper understanding, capability and responsibility of/by consumers. Consumer protection, on the other hand, focuses on regulatory and supervisory aspects notably aimed at ensuring that insurance companies provide their clients with appropriate information in order to best protect policyholders' rights and at establishing appropriate redress mechanisms. In this perspective, this report will not seek to deal with consumer protection as such, but will possibly deal with some aspects of consumers' protection and prudential regulation in so far as they are related to the encouraging and strengthening of consumers' awareness, knowledge (through provision of relevant information) and capabilities as regards insurance products and providers.

6. In this perspective, the provision of information within the financial education framework should also be distinguished from regulatory requirement for information disclosure by insurers and their intermediaries. In the education process, the aim is not to list information to be legally provided to potential policyholders and to overcome the asymmetry of information, but rather to deal with the asymmetry of education and thus to ensure proper and adequate information and advice to consumers with a view to their specific needs and to make sure that potential customers/policyholders have indeed understood the policy and products they intend to subscribe.

7. Against this backdrop, the revised report first focuses on the importance of enhancing awareness and education on risk and insurance issues. It then provides an overview of evaluations carried out in some OECD countries on the level of education of consumers on risk and insurance issues and of their main outcomes. It then appraises the possible and actual roles of main stakeholders in the education process. It finally deals with the different mechanisms and tools at hands to improve the level of awareness and education in the risk and insurance area and the possible ways forward.

8. This comparative analysis is also aimed to support the revised Good Practices for Enhanced Risk Awareness and Education on Insurance Issues¹.

¹ Available on the OECD website at www.oecd.org/daf/insurance

I. IMPORTANCE OF ADDRESSING INCREASING NEEDS FOR AWARENESS AND EDUCATION ON RISKS AND INSURANCE ISSUES

9. The growing and urgent needs for awareness and education in the insurance area stem from two core social and economic evolutions: first, requirements to cover an increased diversity of severe risks by individuals are escalating; second insurance markets tend to be ever more complex and sophisticated. Besides, increasing awareness and education on risk and insurance issues may have positive impacts on the market and the global economy and society.

A. Evolution of risks and households' needs for (insurance) protection

1) Increase in perceived and real risks

10. Emerging and catastrophic risks are probably the most tangible aspect of rising risk levels. For several years now, societies in the OECD area have been facing a resurgence of risks whose scale and frequency would have been difficult to imagine previously, including modern terrorism, especially since 11 September 2001, and recurring major natural disasters and their catastrophic consequences. Terms like "risk society"³ or even "fear society" are increasingly used to reflect people's acute perception of their growing exposure to various major risks, both new and familiar, and to individual risks such as ageing, ill-health, loss of income and financial and economic risks.

11. The range of both conventional and new large-scale risks seems to have expanded as the frequency of their occurrence has increased. They include risks relating to industrial and natural disasters, the uncertain consequences of climate change, terrorist attacks and risk related to new technologies (e.g. risks relating to the spread of the internet and the information and multimedia society in general), health risks such as those relating to asbestos, mold, obesity and new pandemics like AIDS and avian flu, and risks relating to the consequences of demographic change and the resulting rise in life expectancy.

12. The novel nature of some of these risks and their media coverage (especially those with catastrophic consequences or direct effects on public health) are instrumental to the overall impression of a higher level of risk⁴. However that may be, the scale and variety of the ways in which these risks can dramatically affect people's lives and the operation of economic and social systems is a matter of genuine concern for society, especially as the means of preventing and assessing them before they occur are still relatively undeveloped.

2) Enhanced needs and demand for risk coverage

13. Over the last ten years or so, this increase in emerging major risks has been accompanied by a decline in government financing of the consequences of traditional and individual risks in areas such as ageing, healthcare and income replacement⁵ in most OECD countries. At the same time, employers in many OECD countries, especially large firms, have also reduced the coverage of a certain number of these risks as a result of cutting back their social programmes and making greater use of non-traditional or non-standard employment contracts. Fixed-term and part-time contracts and the use of agency staff and self-employed

sub-contractors, rising sharply in most OECD countries, do not necessarily provide the same level of social or group protection and insurance (especially for pensions, healthcare and welfare).

14. In this respect, in a context where life expectancy is increasing, citizens need more extensive protection both to cover ageing and health risks and to supplement or replace reduced public pension and health coverage.

15. Individual needs to cover growing and emerging personal risks have increased in line with economic growth and social development. Personal income and savings capacity have increased in many developed countries over the last decades. Growing sections of the population now have savings to invest. They use these funds to subscribe not only financial products but also to acquire housing and other material goods, which also need to be suitably protected (including against potential large-scale risks). The fact that consumers also contract more debt to make such acquisitions has magnified the risk of loss or lack of income in the event of accident or incapacity.

3) Greater households' responsibility for overall risk and choice of coverage

16. The overall increase in a set of various risks combined with a reduction in public and corporate funding of social risks in most OECD countries potentially implies a greater role for insurance to supplement and complement public or solidarity schemes.⁶

17. The scope and modalities of this role may vary⁷ according to jurisdictions' specificities and in particular to the extent of government intervention to cover different types and levels of risk. In some countries, the State tends to participate more in at least the partial coverage of certain large-scale risks⁸. Likewise, some social protection schemes also still offer more generous coverage of basic risks like health, pensions and unemployment, which private insurance merely supplements. Generally speaking, however, the range of risks covered by private insurance has widened and now reaches the different aspects of individuals' lives to varying extents.

18. These changes therefore mean that individuals are increasingly responsible for the definition and assessment of the potential risks they wish to insure and for the choice of the terms and levels of their insurance cover. In turn, this evolution also implies an enhancement of consumers' needs for appropriate awareness, information and education as regards the assessment of their risk-exposure and insurance products and markets.

B. Greater complexity of insurance products, markets and regulation

19. In a context of increased importance of private insurance solutions to cover a wider range of risks and demand for protection and savings, the sophistication and evolution of insurance products, as well as the variety of insurance providers enhance the needs of consumers for appropriate information and education in the insurance area.

1) Complexity and evolution of insurance products

20. The relative complexity and variety of insurance policies often referred to as information asymmetry between non-expert customers and insurers may make it uneasy for consumers to efficiently compare insurance policies. Moreover, the emergence of insurance products which involve a greater risk transfer to the insured, calls for an appropriate level of insurance knowledge and understanding by households.

a. Insurance products' complexity and specificities

21. With a view to adequately insure risk and mitigate moral hazard situations and adverse selection behaviours, insurers insert various clauses designed to better define the coverage of potential subscribers. This series of clauses and conditions and their effects on the coverage provided by the policy requires a better level of knowledge of insurance products by consumers as well as appropriate information disclosure by insurance sellers and providers.

22. In order to evaluate the real extent of the proposed coverage, consumers should ideally be able to take into account and understand exclusion clauses (excluding certain risks or certain consumers for reasons of age, health, income, etc.), guarantee restrictions (excess, coinsurance and ceilings in particular), various criteria for triggering compensation⁹, and the terms and conditions for renewing policies, submitting claims, and so on. Furthermore, clauses and essential information differ according to the type of insurance. This level of knowledge and understanding is not necessarily attained. For instance in Australia the 2002 Tracking study¹⁰ mentioned that while 65% of consumers claimed good knowledge of their insurance options, 70% of consumers expressed difficulty in understanding their particular insurance policy.

23. Typically, for life assurance policies emphasis, is often put on the importance of information about initial management costs, redemption value in the event of early termination, maturity, minimum term (e.g. for temporary life assurance), exit options, surrender conditions etc. In this area, research in the UK¹¹ has shown that most policyholders do not necessarily fully understand the policies they have taken out, or that they understand the broad thrust but are not aware, for example, of the implications of early cancellation.

24. As far as non-life policies are concerned, consumers should in particular be able to understand and choose the appropriate level and scope of coverage and risks included. For instance, motor third party insurance policies and even motor "all damage" insurance policies do not cover policyholder injury in case of accident (if not otherwise mentioned) and provide for deductibles and ceilings according to occurred damages. First, these coverage exclusions and restrictions are not always transparently stated. Second, they may not be obvious for non-expert consumers, if they are not clearly informed of such when subscribing to the contract. To take another example, in the absence of specific regulation, standard home insurance policies increasingly exclude large-scale risks (i.e. terrorism, natural disasters including flooding, and asbestos), for which insurers propose a separate policy. Yet consumers are not necessarily aware that such risks are excluded, or willing to pay an additional premium to cover them. Insurance products complexity may conversely lead individuals to purchase overlapping insurance contracts; that is to say to have at least two different insurance policies providing a same coverage for a same risk. For instance, individuals can subscribe a travel insurance policy to cover their health costs and/or their belongings while abroad; yet this coverage may actually be already included in their private health insurance cover and/or in their homeowner insurance policy.

25. Moreover, policies covering potentially long-term risks or risks with a relatively low occurrence (life, dependency, large-scale disasters) can indeed be appraised only after a long period of time from the subscription of the policy and typically on a non-regular basis. This means that the initial choice for such policies should be appropriately informed to match households' needs over the long run. This is often all the more difficult as consumers have little experience with these sorts of infrequently purchased products and cannot usually draw on the experiences of earlier generations when taking out these policies.

b. A broadening range of conventional and new insurance products

26. In order to cope with the increasing number of risks with more or less severe consequences, different types of insurance policies have been developed and adapted to meet growing needs and demands from households for increased protection, saving, security and retirement possibilities. In terms of personal

insurance, for example, an individual is confronted with a wide array of voluntary and mandatory types of insurance, including life insurance, health, invalidity, incapacity and long-term care insurance, property and accident insurance, etc. Small business owners must also think about damage, professional liability and industrial accident insurance.

27. Moreover, market evolution and sophistication often imply that consumers have to choose between different types of insurance policy to cover a similar type of risk. For instance, choices are particularly broad for long-term personal insurance. In the life segment, for example, temporary life insurance offers coverage for a limited period and with a relatively low premium, while universal whole life assurance, generally benefiting from tax relief and highly flexible from an investment standpoint, may be another option for a long-term investment and for higher premiums. Consumers, thus, should develop sufficient knowledge of the functioning of these policies and/or be appropriately advised to identify the type of insurance best suited to their lifestyle, family situation, age, financial possibilities, etc.

28. This increasing diversity of insurance products and types of policies certainly calls for strengthened and appropriate insurance literacy and capabilities of consumers in order to help them make informed choices and trade-offs within their limited budgets. In the absence of such enhanced insurance literacy and capacities, households' choices will not necessarily be determined by their risk-exposure, the potential scale of damage or the relevance of the proposed products, but by other criteria, preferences or solicitations.

29. Besides, the emergence and fast development of new types of non-conventional policies such as unit-linked products or to a certain extent health saving accounts, which involve a greater transfer of risks to policyholders, should also be mentioned.

30. In Europe, unit-linked insurance products grew at an average annual rate of 24% between 1996 and 2000 to represent 45% of total life insurance premiums. This trend was slowed down by the stock market crisis in 2001, but since then selling of this type of products has again grown at a fast rate and now represents an important share of the life insurance sector¹². The importance of this kind of policy within the life insurance sector is also great and considerably expanding in the United States (where they first developed), Australia, and Canada. It is also noteworthy that starting from a very low absolute volume, they are currently developing in some emerging insurance markets (e.g. in China and India and other Asian emerging markets). As these types of products may be used for diverse purposes and to cover different long-term risks including life cover, critical illness, disability, health or long term care, they are likely to develop even more in years to come.

31. The important growth and prospects of unit-linked insurance products certainly requires an enhanced level of understanding on the part of consumers of the functioning of these contracts in so far as policyholders bear most of the investment risks and are responsible for the definition of asset allocation. Moreover, policyholders should be adequately informed on the surrender value (if they choose or need to terminate the contract before its maturity) and on the level of any fees attached to it.

32. In this respect, in some countries, tumbling stock markets and the resulting fall in the yields of unit-linked life insurance products in 2001/2002 resulted in a very unpleasant surprise for many policyholders who had not understood that such products entailed a risk of falling asset values when they acquired them. In Sweden, for example, reduced capital of unit-linked life assurance products of certain groups of policyholders generated very substantial discontent, since the policyholders were not fully aware of the risks inherent in their policies.

33. Besides the development of products such as health saving accounts in the United States to cover part of health expenses of policyholders under high-deductible insurance policies also implies a greater transfer

of risks and responsibility for health coverage onto individuals. This responsibility should be supported by adequate understanding and information on the implications of this type of products and on whether they fit households' needs.

c. Evolving insurance products' regulation and consumers' rights and obligations

34. Given the technical complexity of the insurance sector for non-professional and non-expert consumers, most OECD governments have introduced extensive supervision and detailed regulations at national and/or federal/regional levels (e.g. in the US, Australia, Canada and in the European Union). The main purpose of these comprehensive prudential regulatory frameworks is to provide consumers with better protection and to define and determine their rights and obligations as regards insurance products and providers as well as to guide their relations with insurers. Examples that are particularly noteworthy include disclosure obligations, obligations to take out specific types of insurance¹³, consumers' rights of redress and insurers' obligations in that respect. Regulation and supervision is also aimed at fostering the development of certain types of products – health, private pension, micro insurance - and may be leading for instance in special fiscal treatment or subsidies. In this respect, government actions and regulation also entail new needs for appropriate understanding and knowledge on the part of consumers of the rights and above all obligations resulting from these broad and not necessarily harmonised regulatory frameworks.

35. Actually, the level of understanding and knowledge on rights and obligations linked to insurance policies required for policyholders is not necessarily always attained. This lack of awareness and need for enhanced information and education is often reflected in the number of mis-selling and legal actions reported by ombudsmen or supervisory authorities. For instance, in most OECD countries¹⁴, consumers' lack of understanding on their obligations with respect to insurance contracts and, in particular, on the information they are required to provide insurers when taking out a policy or if their situation subsequently changes is often a source of difficulties and litigation¹⁵.

36. Moreover, prudential regulations designed to protect consumers are not necessarily the same across jurisdictions, and sometimes even across different states in the same federation (e.g. in Australia, Canada and the United-States). Consumers thus need to be aware that if they change their place of residence or choose a provider not established in their jurisdiction they will not necessarily enjoy the same degree of protection or have the same rights and obligations with regard to insurers and insurance contracts. Besides, providers of similar insurance products may be regulated differently. In Canada, for example, the segregated funds¹⁶ offered by insurers and the mutual funds offered by investment firms, though similar, are regulated differently.

37. The wide range of (emerging) insurance products and their evolving regulatory context are increasingly difficult to grasp whilst at the same time, insurance plays an even more crucial role in protecting individuals against a growing number of risks. As well as the need for consumers to become aware of and correctly assess their exposure to different risks, they also need to develop even greater knowledge and capacities on insurance issues and on their rights and obligations in this respect. These needs are particularly important in order for consumers to be better able to judge and compare the increasingly large amounts of complex information about insurance policies available to them and to make adequate choices when subscribing a policy.

2) Diversity and trends in insurance undertaking, intermediaries and distribution channels

38. Providers are particularly diversified in the insurance sector. In OECD countries, specialist providers like national and foreign insurers (who have had freer access to domestic markets following the liberalisation process), as well as mutual and provident societies provide life and non-life insurance products in a traditional, albeit variable, context of regulation and supervision.

39. But insurance products are in fact often not offered and sold directly by insurers to consumers. Various alternative distribution channels also exist. Conventional intermediaries or so called independent financial advisors -insurance agents and independent brokers – provide advice and sell the policies of one or more companies. Financial institutions like banks use their retail networks to promote either their own or other insurers' life and non-life products. Other players, like chain stores (e.g. supermarkets, department stores, household goods stores, etc.) automobile dealers and travel agents, have recently entered the market, taking advantage of their closeness to customers or the sale of other goods or products to promote specific insurance products (on their own or on an insurer's behalf). These new distributors sell both insurance products linked to their activity (such as mortgage insurance and more general financial protection insurance for revolving credit on issuer payment cards, extended warranties, motor insurance, travel insurance, etc.) as well as mere insurance products¹⁷.

40. In addition to mail, direct contact, and phone marketing, new distribution and sales channels such as the internet and e-mail are being used with increasing frequency. This is the case for certain targeted insurance products, such as motor insurance (or even simple life insurance products), that are often standardised and require basic information that insurers can check easily.

41. In the absence of a fully harmonised legislative framework for these different insurance providers, the variety and nature of certain providers and new media require an appropriate level of education and information provided to consumers to avoid confusion, misunderstanding and potential mis-selling. As aforementioned, the variety of insurance distribution channels may also conduct to situation where individuals have over-lapping insurance covers or are over-insured¹⁸ for a same risk – while not necessarily being appropriately covered as regards other risk exposures.

42. Against this backdrop, the first question is that of the regulatory framework and the harmonisation of regulations between providers. In OECD countries, traditional providers and their intermediaries operate in a regulatory framework generally designed to protect consumers, including in the event of insolvency or fraud. However, new distributors linked to other businesses and selling activities (such as banks and above all car dealers, department stores, travel agencies, and so on) are not necessarily bound by the same obligations. In addition, even for traditional insurance undertakings, there may be differences in regulations and policyholders' protection between jurisdictions and, in some countries, between insurance companies and mutual or provident societies, for example, or between insurance undertakings and banks, even though they sell similar products.

43. Use of the Internet raises similar issues. In theory, it is an easy and quick source of information and comparison for consumers, provided that it is used advisedly as we shall see in Part IV. It also enables providers (in principle insurers) that do not have national or regional establishments (for EU) to provide information, canvass customers and sell products. Although such cross-border promotion and distribution increases competition on the insurance market, it could also generate risks in case of insufficient consumers' information, given the market's complexity and relative lack of transparency. In this perspective, even though in the framework of free service provision and trade, a consumer should of course be allowed to subscribe a contract with an insurer not established on the national territory, it could, however, be deemed relevant, to promote mechanisms to help him/her to do so in an informed and adequate way.

44. At the same time, the competence and training in insurance matters of providers and sellers of insurance products should be carefully considered. Distributors of insurance products should have a minimum knowledge of the insurance business and the content of policies (e.g. policyholder's rights and obligations, an understanding of the main terms of policies, especially exclusions from guarantee and cancellation policy etc.) in order to appropriately fulfil their advisory function with respect to consumers. In fact this is not necessarily the case, especially when providers are not insurance specialists. British

consumer associations have reported many cases of mis-selling to consumers, such as when medical preconditions invalidated their policy (often in case of mortgage insurance). Consumer associations have also reported that in covert surveys, distributors did not ask the essential questions that would enable them to determine the consumer's coverage needs.

45. Training aside, the different providers do not necessarily share the same ethical approach or code of conduct as regards selling practices and the long-term management of insurance products. When a customer takes out a policy, there may be a conflict of interest between the consumer's needs and expectations and the distributor's motives. For example, the distributor may be bound by commercial restrictions, such as agreements with certain insurance companies, or have an interest (often of a financial nature, e.g. contingent commission) in promoting the products of one company rather than another and hence be less inclined to give consideration to potential subscribers' real interests and needs. Consumer associations have reported a number of sales practices where pressure, fear or even lies are used to convince consumers to take out policies that they did not necessarily need¹⁹ and/or that duplicate coverage they already have. On another ground, the legal structure of insurance entities and notably their for-profit or not-for-profit nature could also influence consumers' choices if they are so informed. For instance, in a mutualist context, policyholders can in principle participate in the entity's management, thereby establishing a more long-term relationship with the institution in charge of the coverage of their risks.

46. Given this variety of providers, regulated in different ways, consumers should be given the means to develop an appropriate level of education and information on the divergences between players on the market, especially on the financial situation and solvency of these entities, and on their own rights (especially to information). This would be especially needed in order to enable consumers to choose providers that best suit their particular needs and preferences²⁰ and that that are sustainable in the long run.

C. Importance and benefits of addressing needs for increased risk awareness and education on insurance issues

1) For the whole population and vulnerable segments

47. Appropriate education of individuals on risks and insurance issues is instrumental in strengthening social fairness and a sound social and economic development. The ability to ensure the adequate protection on the long-run of individual assets and wellbeing can in this perspective be considered a key tool to promote social and economic integration. On the contrary, failure to address needs for enhanced risk-exposure awareness and individual responsibility in this respect entails potentially harmful consequences of diverse types for households ranging from useless spending on unnecessary and/or overlapping insurance policies to financial exclusion.

48. Against this backdrop, it should be highlighted that the likely benefits of better education are diverse and much depend on the categories of population, their risk-exposure as well as the level of development and role of domestic insurance markets and their regulatory and supervisory framework.

49. First, the degree of awareness of exposure to certain risks, as well as access to insurance education knowledge and understanding differs according to the category of population^{21,22}, especially and to income, to the access to overall education and to independent financial advices and to more general factors such as social class, community, family structure, age, sex, health, geographical situation, etc. Generally speaking, the most deprived and fragile populations (such as low income, immigrants, eldest and youngest members of society, jobless, women, etc.) are those who at the same time need greater protection against a wide range of social and economic risks and who are least aware of risks and less literate and skilled as regards insurance issues. For instance, according to a UK FSA survey²³, the under-40s are relatively less

capable and less skilled in financial matters. Yet, they represent the segment of the population most in need of enhanced education about risks and insurance issues as they are confronted more than past generations with increased and diverse risks for which they bear the responsibility to seek and choose coverage over the long run.

50. Categories of population particularly at risk such as those living in natural and industrial (as well as terrorism) risk-prone areas should particularly be made aware of those risks and of mitigation measures and coverage options available – including micro-insurance tools- to best cope with their risk exposures and vulnerabilities. In a similar perspective, where no other social protection schemes are available (or no longer available), citizens should be sensitized to their needs for protection against crucial health and ageing risks (including long-term care) and informed about the various ways to best meet their needs in this respect.

51. In countries where insurance markets are still in their infancy and where the insurance regulatory and supervisory framework is not necessarily fully coherent and enforced, households need even better financial information and education on insurance products and policies in order to make confident and appropriate choices in this respect. The development of appropriate regulatory and supervisory framework and incentives to encourage the accessible provision of micro-insurance products using adapted distribution channels based on local networks may also be envisaged for low-income segments of the population and those living in remote and risk-prone areas²⁴.

2) *For governments and private insurance market players*

52. Governments also have a direct interest in attempting to accurately face emerging needs of households for enhanced risk awareness and insurance knowledge.

53. First, governments (and therefore taxpayers) often have to provide financial support after the event to populations without any or with insufficient protection or provide them with retroactive protection. The consequences of large-scale disasters, including terrorism, provide a striking example in this respect. To take a recent illustration, following the series of hurricanes that ravaged the Gulf of Mexico in August and September 2005, the US government has prepared legislation that will allow the victims of Rita and Katrina to be covered retrospectively by the National Flood Insurance Program²⁵. But the same is also typically true if citizens have not saved enough for their retirement, for instance.

54. In the medium and long term, this ignorance also has a cost connected to the need for tighter regulation and prudential supervision in order to encourage individuals to protect themselves against risks and to confirm that they are properly covered by insurance products adapted to their essential needs. Some Delegations have also emphasised that tighter supervision could prove ineffective if consumers were incapable of understanding the information they were given. This is compounded by the potential cost of legal action by consumers, whether problems were due to their own lack of knowledge of products and providers, to a lack of information about the true coverage of the policy or to mis-selling. For instance, in 2004 BAFin, the German financial services authority, received over a thousand complaints from policyholders with a saving component (life assurance, health and pension policies) because of confusing advice or misleading or misinterpreted advertisements.

55. These issues also affect sellers of insurance products, albeit to different extents. Increased awareness of risks and knowledge on insurance products and providers could enhance the size of their potential market and would in this respect be beneficial to them. The failure to address needs for enhanced basic literacy and understanding of insurance products theoretically makes the market less competitive since consumers are less likely to compare products and choose those most appropriate to their situation.

56. In addition, inaccurate understanding of insurance products and policies potentially generates a number of risks and costs of an operational, financial, and prudential nature. They may first be operational because consumers who have been sold unsuitable products may cancel their policies early²⁶; and second because it is more difficult for insurers to analyse exposure to risks of which policyholders themselves have only an imprecise notion. These two factors make risk assessment less accurate for insurers and can result in various operating costs, such as the premature sale of assets to reimburse policies, reassessment of reserves, revaluation of premiums, etc. It may also engender financial costs because dissatisfied consumers can take legal actions, which also implies additional costs for insurers. Lastly, it might potentially entail prudential costs because in most OECD countries a likely result of market failures like mis-selling, dissatisfied policyholders and customers left without coverage is a tightening of regulation and supervision.

57. In contrast, if consumers are alerted to and fully aware of the risks and of their responsibility for their own coverage and for choosing appropriate policies, the insurance market will be more transparent and stable. While consumer education can not replace prudential regulation and supervision, greater consumers' education and responsibility on insurance matters could pave the way for developing more flexible regulatory frameworks that would allow for more adaptable management, better suited to the specific features of each insurance undertaking.

EVALUATION OF INDIVIDUALS' RISKS AND INSURANCE AWARENESS, EDUCATION AND CAPABILITY

58. Answers to the questionnaires suggest that so far national evaluation surveys to improve consumer education about insurance products or financial products at large have been carried out in a limited number of OECD countries. In this respect, results of the few studies that have been conducted reveal that even though households increasingly need and are responsible for the protection against a wide range of risks, at the same time, they are relatively unaware of their most significant risk-exposure and of best ways to address these needs for protection including through insurance solutions.

59. When assessment processes exist, they generally encompass three main types of evaluation: first the appraisal of individuals' level of awareness on risks, on their specific exposure and needs for appropriate coverage; second the assessment of individuals level of knowledge, understanding and responsibility on insurance issues; and third the analysis of the level of transparency and selling practices of insurance and intermediary market players.

A. Risk awareness and inappropriate coverage/insurance

60. Assessment is important firstly to estimate any shortcomings or flaws that might lead to under-coverage or inappropriate coverage in all or part of the population for potentially severely damaging risks. In this respect, when they are carried out such assessments depending on country circumstances often focus on natural and man-made large-scale disasters, long-term risks or risk involving important resources in the long run (this may typically be the case for longevity and severe health risks such as dependency), of which people are relatively unaware or for which they may be ill-covered.

61. Until 2002, the General Insurance Association of Japan prepared a study designed to evaluate consumer awareness of homeowners insurance, including coverage of earthquake risk. In Finland, the ombudsman monitors all types of risk that may affect the population and is responsible for informing consumers about them.

62. For various complex reasons (highlighted in box 1), results of most of these studies show a lack of awareness of the need to seek protection against risks, when insurance coverage is not compulsorily or otherwise provided automatically by public schemes. Households often seem to underestimate the damage caused or needs for resources stemming from potential risks and their coverage needs, in particular, those related to large-scale catastrophes or ageing risks. In Australia, for example, 40% of homes are poorly insured or not insured at all²⁷. More recent surveys²⁸ also suggest that between 27% and 81% of consumers are underinsured by 10% or more against current rebuilding costs.

63. More precise assessments of the appropriateness of flood coverage undertaken in several countries²⁹, reveal similar results. In the United States, only 25% of homes in areas liable to flooding have flood insurance cover (which is not included in standard householder insurance policies)³⁰.

Box 1. Some reasons for low risk awareness and inappropriate coverage

Several reasons may explain inappropriate coverage and/or under-coverage for potentially seriously damaging risks. First, consumers' short-termism does not generally encourage them to consider long-term risks against which they often believe themselves to be covered, such as old age and dependency risks³¹. Households can also be reluctant to seek coverage for a risk they consider unlikely or of which they are not even aware. This is typically the case for risks that have potentially huge financial and economic consequences but are characterized by low likelihood of occurrence. Similarly, risks affecting third parties are difficult for individuals to perceive, since by definition they are not directly concerned.

Unfortunately, it is often the adverse experience of catastrophic events and their resulting damages that makes people aware of the risk. For example, the floods that occurred in Eastern Europe in 1997 and 2002 and above all 2005 series of Hurricanes in the US and the resulting catastrophic floods suddenly raised public awareness of this risk and of the scale of damage such event could cause. Likewise, the 9/11 attacks have suddenly increased awareness of the risk of terrorism in OECD countries and of the need to develop adequate coverage in this respect. Some researches even show that sales of all protection insurance increased in the two years after 9/11, including forms of insurance like life or dependency insurance that do not necessarily have any direct connection with terrorism risk and its coverage³².

This lack of awareness and knowledge about the scale of possible damage is often compounded by a conviction that the State already covers the risk (even if that is not or no longer the case), or will cover the damage in the last resort (for example, in the event of natural disasters or terrorist attacks)- the so-called Samaritan dilemma.

Moreover, within generally mature and regulated OECD insurance markets, recent scandals that hit the insurance providers and their intermediaries, coupled with some cases of mis-selling of insurance products, can make consumers mistrustful of providers with whom they are often expected to conclude agreements based on long-term solidity and reliability. In countries where the insurance market is in the initial stages of development, households do not necessarily have the inclination or the desire to take out insurance against even potentially very damaging risks. In former Communist countries³³ and in emerging economies, the lack of an insurance culture and education coupled with general mistrust of financial institutions is often mentioned as one of the main reasons, together with low incomes, for the absence or lack of insurance protection even for most needed coverage (e.g. against large scale disasters and health risks).

Finally, some research³⁴ and surveys – see hereinafter- have found that individuals often remain passive as regards possible solutions to best handle their risk exposure. In this respect, it may not be enough to provide information and education to individuals to increase their awareness on risks and ways to prevent and cover them. The challenge rests in seeking ways and solution to incite them to change behaviour, to enforce proper mitigation measures and to actively seek and get appropriate coverage in accordance with their risk exposure and vulnerability.

64. Surveys are also conducted into the appropriateness and adequacy of coverage of long-term risk such as ageing including through life insurance policies. For instance the EC will carry out a study in 2006-2007 on the market for long-term savings. One of the purposes of the study will be to appraise whether these products and recent evolution best meet consumers increasing needs in this respect.

65. Assessment may also imply monitoring the general individual awareness and knowledge on the possibilities available to cover these risks including insurance vehicles. This analysis is rarely undertaken systematically. In addition, the criteria for measuring such awareness are rather difficult to define. One interesting initiative in this area is an annual survey carried out by the Korean Insurance Development Institute, designed to assess the extent of awareness and the existence of an insurance culture among potential consumers according to criteria such as life and non-life coverage rates, policyholder satisfaction and consumers' propensity to take out insurance³⁵.

66. In Australia, the Government is currently conducting benchmark research into financial literacy levels at large. Surveys conducted on the Australian population will also include data on attitudes, awareness and

competency in relation to insurance and risks. In this area, survey of US consumers conducted by the NAIC in 2006 targeting specific age-group reveals a relatively low awareness of the needs to seek coverage. The survey mentions for instance that 20% of young adults would rather let their auto insurance policies lapse to save money. Similarly 18% would decline employer health insurance to save money. At the other range of age groups, only 12% of empty nesters/seniors think they are very likely to need long-term care and they significantly underestimate the cost of such care (annual estimate is \$ 35000 whereas the actual annual cost is more \$70000).

67. In Poland, on another front, in 2002 the Insurance Chamber carried out a survey on representatives of public opinion (politicians, journalists, civil servants), which revealed a very low degree of familiarity with insurance products.

B. Measuring level of insurance knowledge, understanding and capability

68. Another stage consists in assessing specific education needs by measuring consumers' real (as compared to alleged) understanding of policies and of how insurance works. The NAIC consumer study in the USA, for example, shows that although two-thirds of American consumers considered that they had adequate coverage, only one-third thought that they properly understood their policies. Moreover, the same study reveals an important need for greater awareness about fake insurance and understanding of insurance policies. In this respect, only 45% of US consumers overall get suspicious about a policy that costs significantly less than comparable ones. In Germany in 2003, NFO Infratest Finanzforschung and the Bertelsmann Foundation carried out studies to identify the level of financial education among adults, the reasons why it was so low and the factors behind individual decisions about retirement saving and investment (including life assurance products). In Japan, the Central Council for Financial Services Information prepared a consumer questionnaire, which investigated the level of consumer knowledge and understanding of financial matters in general (including insurance). The results of the survey demonstrated that consumer needs for enhanced education and understanding are considerable and urgent. These outcomes have been reflected into future education programmes by the government. As mentioned, with a view to support the project "building financial capability", the FSA in the UK also conducted an extensive analysis of consumers' understanding of financial products. The results of this survey were published in 2003, showing a general weakness of financial understanding³⁶.

69. As regards inappropriate coverage or mis-selling that may result from a lack of accurate understanding of insurance policies, a relatively useful and widely used tool is the number and types of complaints registered³⁷ by the competent authorities (generally the insurance supervisory authorities or ombudsman when relevant). In this respect, in Spain, the Annual Report of Inquiries and Complaints compiled by the Directorate General of Insurance and Pension Funds (DGSFP) tables and classifies the number and nature of consumers' inquiries and complaints received, resolved or withdrawn and the insurers that are the object of complaints. In addition, the DGSFP analyses the outcome of such data collection along with its records on calls to its hotline and the face-to face support provided. The DGSFP is then able to take remedial measures if deemed relevant.

70. Going further, other types of assessment sometimes relates to consumers more or less (pro)active stance as regards risk and insurance issues: and in particular whether they actually regularly appraise their risk-exposure and the appropriateness and competitiveness of their insurance (or public) coverage, take remedial action when relevant, shop around before choosing a products and policy, collect information (and from which sources), are able and knowledgeable about what important questions to ask insurance distributors depending on the requested products, know where to find information, advice and help in case of disagreement with insurers. On all these aspects, main surveys conducted so far in OECD countries³⁸ revealed that, on average, consumers remain passive as regards risk and insurance issues and products. For example, a UK study³⁹ based on a representative sample of consumers having yet subscribed

a life insurance contract showed that only 10% of them had personally considered more than one policy and that 59% had followed the advice of a distributor.

71. In addition to research by public bodies in some OECD countries, surveys are often carried out by consumer associations (like “Which?” in the UK) or research institutes on certain segments of the population (e.g. immigrants, young people, old people, etc.) and on certain products (especially life and long term care insurance). The Japan Institute of Life Insurance, for example, carried out a three-yearly study of what ordinary consumers know about the terms of life assurance contracts. The most recent study, in 2003, showed that the diversification and complexity of life assurance products in particular posed problems of comprehension for consumers.

72. A number of public and non-governmental websites⁴⁰ contain questionnaires that allow consumers (depending on their profile) to assess their own basic insurance needs (e.g. life, health, automobile, loss insurance) and their actual understanding of such policies. However, although such self-assessment is helpful in making individuals more aware of and more responsible about their need for education, such resources do not provide any information about the education needs of the population as a whole or of more specific target groups within the population.

C. Evaluating overall insurance market integrity, transparency and practices

73. Assessing the size, competitiveness and overall transparency of insurance products and markets - including products targeting low-income groups such as micro-insurance policies-, and the performances and, more specifically, the practices of insurance product providers is also important in order to target possible improvements. As mentioned in the first place, education needs may differ according to the maturity and competitive nature of the market. For example, scandals affecting major insurance industry players in certain countries may lead to a belief not only that regulation of the sector and, above all, commercial practices in those jurisdictions could be improved but also that the education and capability of potential consumers should be increased so as to restore a climate of trust.

74. In Mexico, an official body called PROFECO (Procuraduria Federal del Consumidor) carries out occasional quality surveys of service providers' performance. In the UK, an assessment of both life and non-life insurers was carried out as part of the Treating Consumers Fairly programme. In Japan, non-life insurance providers organise conferences and round-tables to measure consumers and media opinion of the selling and management of policies. Feedbacks are then used by association members to improve their practices. In most jurisdictions consumer associations also take part in such monitoring, conducting covert surveys of insurance product providers, with the aim of sensitising public opinion to any problems encountered. In Poland, under the insurance code the ombudsman is responsible for carrying out research into the insurance market and preparing reports on the general conditions for the offer of insurance. The ombudsman is also responsible for reporting any irregularity to the supervisory authority and informing the public of the results of its research.

MAIN STAKEHOLDERS' ROLES AND GOVERNMENTS' INVOLVEMENT

75. Answers to the questionnaire and comments reveal that governments and the public are gradually becoming more aware of the need to improve individuals' assumption of their responsibility for the coverage and protection for a range of risks –including through insurance policies when relevant-as well as their understanding, knowledge and skills relative to insurance products. This trend seems to be reflected in a large number of mostly separate initiatives undertaken by different stakeholders, both public (governments, various public agencies and bodies) and private, whether insurance undertakings (companies, mutual or provident societies, etc.), industry and consumers associations, intermediaries, businesses, rating agencies, consumers and policyholders etc. All these different players endeavour in various ways to improve consumer education on risks and insurance issues.

76. The respective roles of a wide range of public, market and NGOs players in enhancing education on risks and insurance issues largely depends on jurisdictions' own circumstances and assessments of the particular needs, if any, of households in this respect.

77. In general, the provision of appropriate and objective information and advice relative to the subscription and functioning of insurance products and policies is mainly a task for insurers and intermediaries. Yet the objective of raising awareness of risks, of the need for protection against some of the most damaging and/or ill-covered risks, or on particular types of insurance policies as well as the strengthening of consumers knowledge, understanding and skills related to insurance products involve a broader range of stakeholders – including public authorities. Yet, boundaries are rarely so clear-cut: some insurance companies and intermediaries – and often industry associations – are involved in the provision of resources and support to consumers in order to increase their awareness on certain risks and their understanding and capabilities as regards insurance matters. Moreover some public-private partnerships are also launched in particular to enhance knowledge and understanding on risk and insurance issues.

A. Governments' role/intervention

78. The extent of state intervention depends on the assessment of needs for better education in the concerned jurisdiction and on the efficiency of programmes and initiatives already carried out by other stakeholders including insurance market players. Any direct involvement of the state in this respect is generally not aimed at replacing or consolidating a range of private initiatives, but rather at benefiting from the experiences of programmes in place and at encouraging/coordinating them to best respond to consumers' needs and cope with possible shortcomings in education. The development of specific public policy and project in order to improve education level on risk and insurance issues would ideally be designed within a cost and benefit approach (taking into account initiatives already in place, and assessment of best means to achieve efficiency) and involve evaluation criteria and steps to appraise the impact of such programmes.

79. Against this backdrop, in some OECD countries, governments and public bodies often play a role in instructing/ informing citizens about risks and about the role that can be played by insurance in this respect. They are also involved in providing information and knowledge on insurance mechanisms, products and their relevance as well as on consumers' rights and obligations as regards insurance products and providers. Lastly, governments are to some extent contributing through regulation to ensure that

consumers have appropriate level of coverage for most severe and widespread risks and to promote the transparency and integrity of insurance markets towards their consumers.

80. In this respect, some financial or insurance supervisory authorities⁴¹ and governments⁴² have a statutory objective to promote public understanding of the insurance (and/or financial) products and markets (see also annex 1 for details on responsible authorities). As regards the EU, its Whitepaper on Financial Services 2005-2010⁴³ clearly states that primary responsibility for consumer financial education rest with the Member States, but that the European Commission can still both promote best practices in consumer financial education and facilitate common projects. In some countries, education programmes are primarily carried out by private entities or NGOs such as consumers and/or industry associations.

81. Another important characteristic of governments 'approaches to education in the insurance area relates to their scope. In the few cases where coordinated programmes to promote financial education exist, they generally go far beyond the specific framework and issues of the insurance sector. In countries like Australia, Japan, Korea, the Netherlands, New Zealand, Spain, the United Kingdom⁴⁴ and the United States⁴⁵, to some extent coordinated programmes have been set up for the entire financial sector, including insurance. A comprehensive approach of this nature makes complete sense since it means that more resources can be brought together and a host of relevant players can be implicated in order to tackle a set of problems that may have similar origins. However, insurance issues are often broached only after those relating to banking and investment products and may therefore be given less attention than they deserve, especially as regards awareness of specific risks (that go beyond mere investment risks), understanding of insurance mechanisms and specific new policies. Some countries are developing programmes targeting either certain risks, such as risk with serious consequences (terrorism, natural disasters), recurrent risks (automobile accidents) and poorly covered risks (pensions, long term care, incapacity), or populations that are more fragile or need specific sensitisation.

1) *Instruction*

a. *Role of public school programmes*⁴⁶

82. According to the definition developed in the 2005 OECD survey on Financial Education and adapting it to the insurance sector, Instruction involves ensuring that individuals acquire the skills and ability to assess and understand their risk exposure as well as insurance terms and concepts, through the provision of training and guidance. From this standpoint, instruction is usually regarded as a matter for governments, especially where instruction for young people is concerned.

83. Actually, as we shall see in the following section, training competent experts in the insurance sector is certainly crucial to ensure the soundness and development of a sound insurance market. Yet, it is equally essential to enable the population as a whole, and in particular the less literate segments, to become familiar as soon as possible with the main risks they will have to address and cover, with the role and basic mechanisms of insurance, as well as with their basic rights and obligations in this respect. Although such programmes are rarely developed in OECD countries, some interesting initiatives are worth noticing.

84. In Mexico, for example, the Comision Nacional de Seguros y Financieros (CNSF) has taken part in a series of events designed to instil an insurance culture in Mexican society. One example of this type of activity is the "safety" week organised each year by an association of insurance agents to promote prevention values among primary school children through open discussions in class.

85. In a similar fashion, the initiative of the General Insurance Association of Japan in partnership with the Japanese government should also be mentioned. The association has amongst other things launched the *hands-on educational program for elementary schools students*. The program is designed to guide children

to gradually discover the importance of disaster prevention. For instance, children explore their towns and communities and find facilities related to disaster. Children then collate their experiences in a disaster prevention map and make presentations of their findings before the class.

86. In principle, the secondary level seems better suited to more detailed instruction about general notions relating to risk and insurance (e.g. law of large numbers, risk spreading, moral hazard and risk selection, etc.), how common products work (life, non-life/damage, liability insurance), the market and providers, and the assumption by individuals of responsibility for their insurance-related choices, decisions, rights and obligations. The purpose of such instruction is less to provide technical knowledge of how insurance products and techniques work in detail, but to give an introduction to the fundamentals of insurance, especially essential trends and issues within the sector (the risks, the different stakeholders' motivations, their basic workings).

87. In most cases, risk awareness and the fundamentals of insurance are not dealt with, whether in primary or secondary schools. However such issues are sometimes further broached in connection with related subjects (such as mathematics, economics or social sciences). As a rule, insurance is often included in broader programmes on financial issues.

88. Against this backdrop, some countries have established programmes involving cooperation between public and private stakeholders (e.g. foundations, institutes and associations) to sensitize and train teachers of such subjects in risk and insurance mechanisms and to provide them with materials and textbooks for the purpose.

89. In Australia, in 2005 a National Consumer and Financial Literacy Framework⁴⁷ has been developed by the Ministerial Council on Education, Employment, Training and Youth Affairs to clarify the learning needed to fulfil the national goals of schooling in the 21st century. This framework is notably aimed at providing guidance to states and territories in the development of their curricula from kindergarten to year 10. Above all, the framework elaborated in collaboration with the Financial Literacy Foundation defines guidance to developers of support materials and the professional development of all teachers of consumer and financial literacy. In the Future, the Foundation will further build on existing initiatives to increase the level and quality of financial literacy education (including on risk and insurance issues) being provided through schools, vocational education and training and the university sector.

90. In Germany, a number of programmes have been introduced with the aim of better integrating economic and financial subjects into school curricula. Cooperative initiatives with organisations like Initiative Wirtschaft & Gymnasium aim to include financial education in the schools programme. The "Handelsblatt macht Schule" programme, a cooperative venture between the German financial newspaper and the Institute for Economic Education at Oldenburg University, provides teaching manuals on economic issues specially adapted to schools' needs. The North Rhine/Westphalia Chamber of Commerce has launched a pilot scheme named Prawis, designed to promote training in practical economic issues at secondary level. Various foundations in cooperation with the education ministries of various Länder and industry use the web portal for online financial education (*ökonomische Bildung online*) to offer teachers additional training in economic and financial issues –including insurance issues.

91. In Japan, under the aegis of the Discussion Committee, the new programme to integrate aspects of financial education into the school curriculum drawn up by the FSA, the Central Council for the Financial Services Information and the relevant ministries implies specific training for teachers.

92. In the UK, the FSA has developed "Make the most of it!", a resource pack for teachers of children aged 14 to 19 designed to stimulate dialogue on personal financial issues, including insurance, and to give future young adults the necessary knowledge and confidence to assume responsibility for their choice of financial

products and protection⁴⁸. In the USA, the Insurance Education Foundation provides a wide range of courses through various universities and on CD-ROM designed to improve teachers' and students' knowledge of insurance policies. It also provides manuals containing course materials for teachers.

93. The promotion, development and recognition (through media coverage) of specialist academic research in the insurance field also help indirectly to raise public awareness of the issues and to increase the efficiency and transparency of markets in the longer term. The vast majority of OECD countries offer a variety of specialist higher education courses in the various branches of insurance⁴⁹. In Poland, there has been media coverage of specialist studies in insurance. Each year the insurance ombudsman, in cooperation with the Insurance Education Foundation and the insurance newspaper, organises a competition for the best master's or PhD relating to insurance and pensions. The ombudsman also takes part in many student gatherings and seminars and cooperates with universities offering courses in insurance. In Mexico the CNSF, with the Mexican Association of Insurance Institutions (AMIS) and the Association of Mexican Surety Firms (AFIANZA), organises a contest for research into insurance and prevention. The contest involves professionals from both industries, researchers, teachers, students and the general public, preparing specialist papers on the subject.

b. Role of continuous education

94. Out-of-school, various initiatives of, mainly though not exclusively public origin, are also aimed at instructing individuals on risk and insurance issues. Continuous and on-going education after school is especially important in that individuals' insurance needs change during their lifetime according to their evolving family, health, social and economic situation. Ongoing training may also be a way of reaching certain segments of the population which have little access to education at schools taking the opportunity of teachable moments (such as changing occupational, family or patrimonial situation or post-disaster events window of awareness) and using more tailored tools and supports best fitted to various kinds of needs and level of literacy.

95. In this perspective, seminars and courses are organised in some countries. In Germany, adult education centres (public institutions) nationwide offer basic financial education (including insurance) with courses on various topics tailored to specific needs. In Slovakia, teachers specialising in insurance give courses and seminars to raise awareness among the public as a whole. In the USA, the NAIC offers year-round courses on insurance regulation and events like an insurance week, intended for a wider audience. In Japan, the FSA publishes brochures for students, designed to increase their knowledge of financial matters. In Spain the National Consumer Affairs Institute⁵⁰, an autonomous body under the aegis of the Ministry of Health and Consumers Affairs provides *inter alia* education through the School of Consumers Education and support to consumers and service user associations. It also designs specific training courses on National Market Control Campaigns, attending to the needs expressed by consumers and their associations. In Australia, the Financial Literacy Foundation has established a network for educators and trainers in financial education. Through this network, the Foundation collects and disseminates news on financial literacy initiatives. The Foundation will also build part of its website⁵¹ to support educators, trainers and human resources professionals in implementing financial literacy programmes. Information will include case studies of financial literacy education, summaries of quality financial literacy education resources, and news on financial literacy developments and events.

96. Certain supervisory authorities like the NAIC invite consumers to some of their meetings and to take part in discussions so as to give them direct experience of the workings of insurance companies and the complexities of the market. The NAIC has had a consumer liaison programme and committee since 1992.

97. In France, the AMF (Financial Market Authority) has recently created a specific body aimed at training households in order to reinforce their level of economic and financial education using various information

and instruction channels⁵². This typically includes information on life insurance products. One of the purposes of such body is to teach consumers to raise the appropriate questions when dealing with insurance distributors.

98. In most OECD countries, consumer education on insurance issues is far from systematic for non-specialists. At best, such education forms part of a wider programme spanning all financial products. This relative weakness means that, when they become adults, most consumers of insurance products rely for their education on the quality of the information and advice provided by various stakeholders, including insurance market players themselves.

2) *Informing/advising*

99. Apart from these few initiatives relative to instruction, so far public authorities have mainly played a role in informing and further advising consumers on risk and insurance issues at large through very diverse tools (see also part IV on programmes).

100. Public authorities involved in this information role include ministries (i.e. mainly finance, economic and education), insurance and financial services regulators⁵³ and chambers of commerce, which are often particularly active in providing detailed and objective information about risks and insurance products. More specific bodies like the Insurance Damage Chamber in Canada and specialist committees created in certain countries (Japan and France, for example) also provide information and advice about insurance. The ombudsman in Austria, Germany, Greece, Finland, Poland and the UK and CONDUSEF (*Comision Nacional para la Proteccion y Defensa de los Usuarios de Servicios Financieros*) in Mexico also has a role in providing information.

101. Most of the time information is offered through guides, brochures and leaflets. The development of websites is also particularly noticeable for regulatory authorities (see box 3 for selected detailed examples), as well as the organization of events, conference and public awareness and prevention campaigns. Information generally encompasses certain risks, products, types of providers and regulation and may also go further advising consumers on insurance issues and products.

102. In this respect, in most OECD countries, government agencies (such as regulatory supervisory authorities and ministries) have developed a website providing a vast array of general information on how insurance works, what are individuals' coverage needs (often taking a FAQ approach with questions like "Why do I need insurance?") and the different types of insurance and products, especially the most common sorts like motor, home, life, health and long term care insurance.

103. In some cases, information is also provided for a particular type of product. In France, after the PERP savings scheme was introduced in 2004, the CCSF (*Conseil Consultatif du Secteur Financier*) examined how this type of long-term investment product was sold. As a result, and more generally, the CCSF has sought to improve information about savings and life assurance products, culminating in the creation of a questionnaire setting out the questions consumers should ask themselves before making an investment or taking out life assurance. A glossary of insurance terms has also been assembled and will be widely circulated.

104. In some cases, public bodies⁵⁴ also offer advice and tips on choosing between different products and comparisons of products by price, exclusions and scope of coverage. Advices on choosing and comparing insurance products are for instance provided by the FSA in the UK, the Insurance Commission within the Ministry of Finance in Israel, ISVAP (*Istituto per la Vigilanza sulle Assicurazioni Private e di Interesse Collettivo*) in Italy, the ombudsman in Finland and the NAIC in the US. For instance, the guides developed by the ISVAP and the Insurance Commission in Israel recommend consumers to compare

products before taking out a policy, to ask for further information (and typically details questions to be raised).

105. In Italy, a specific guide to life assurance also gives a whole set of detailed advice about subscribing life assurance products. In particular, it advises potential consumers to pay attention to the benefits (in the case of an annuity), the consequences of terminating the policy, possible exclusion clauses for certain causes of death and the level of charges.

106. Likewise in Israel, the internet site of the Commissioner has Buyers Guide for Life insurance and Long Term Care. These guides have explanations of the need of insurance coverage, types of insurance coverage available, the rights of the insured and questions that potential policyholders should ask the insurance intermediary or the company.

107. Some government bodies also propose a personalised assessment of an individual's situation in relation to insurance⁵⁵ and long-term projections and simulations for products with an investment and savings component (life assurance, pension, long term care, etc.). In Sweden, the insurance consumer Bureau, under the aegis of the consumer agency, provides personalised advice on insurance to consumers. In Spain, the Public Service Unit of the DGSFP also plays an advisory role (see sub-section and protection).

108. In the framework of the Insure U initiative, a sub-section of the NAIC website in the US offer a wide range of advice, tips, quizzes and training by age group and categories of population, on how to assess one's needs for insurance coverage, how to buy and compare insurance products, how to file a claim, etc.

109. Information about companies and intermediaries operating on the insurance market is also often offered. In Poland, the website of the insurance and pension fund regulator KNUiFE provides information about changes on the insurance market, especially liquidations, mergers and parting of insurance undertakings, and statistical data on the market and providers. The ombudsman in Finland and Poland is also responsible for carrying out market studies. Comparisons between insurance providers and products sold are also often made available from various sources, including supervisory authorities (the UK FSA), financial analysts and rating agencies⁵⁶ -in New Zealand they are government-approved.

110. Information about the statutory and contractual rights and obligations of consumers and insurers within each jurisdiction is also generally provided by public authorities mostly through insurance regulatory and supervisory authority's website. More detailed information is usually available concerning compulsory insurance and the content of such policies (see following session). In most OECD countries, dedicated websites provide information about applicable regulations in the insurance sector. Like other jurisdictions, Iceland's FSA has put all the prevailing laws relating to insurance online, together with information about companies and brokers operating on the market and policyholders' main rights and obligations.

111. Information about current regulatory reforms, whether relating to policyholders' rights or, for example, reduced levels of protection under public schemes following a reform, should also be provided and taken up in the media. Poland's unfortunate experience in this respect particularly highlighted the importance of adequate public communication. The lack of information about insurance reforms in 1999 led to a wave of early cancellations of life assurance policies (see also Part I). In this perspective, in the UK, the key information relative to the regulatory reform programme relative to the insurance industry that started in November 2001 is available as a publication on the FSA website (*Insurance Sector Briefing on Delivering the Tiner Insurance Reforms*).

3) *Supporting the education process: protection / regulation*

112. Raising awareness and education on risk and insurance issues certainly complements regulation and supervision, as a number of Delegations rightly pointed out. Although better education may imply a more flexible regulatory framework, in practice, it is difficult to improve the level of education evenly across the entire population. Some sections of the population remain more fragile and potentially more exposed to risk, meaning that regulators should maintain an appropriate level of consumer protection. In this respect, a few key aspects of the insurance regulatory framework may be particularly stressed in so far as they support the financial education process.

113. First, some policy measures, such as compulsory insurance (see box 2) and targeted incentives can also be aimed at raising people's awareness of the risks to which they are potentially exposed, at improving the level of insurance coverage, and at ensuring that population are more familiar with the role and use of insurance products. For instance, partial or total tax exemption for premium payments and/or profits, to insure against certain risks could be mentioned. In this respect, a majority of countries accord special treatment to life assurance products, together with private health insurance⁵⁷ and invalidity or long-term care insurance.

Box 2. Possible role of compulsory insurance

Compulsory insurance⁵⁸ for individuals has been introduced in many countries in order to provide people with immediate and comprehensive protection against certain types of risks. Compulsory insurance may be justified and relevant in various cases, such as when the risk is major or frequent and potentially affects a large segment of the population and at the same time is poorly anticipated. Examples would be motor TPL insurance, work accident insurance as well as possibly insurance against catastrophic risks (i.e. terrorism, asbestos, flooding, etc.) and life and long-term care insurance. Those who engage in high-risk activities such as hunting may also be required to take out compulsory liability insurance. Compulsory insurance seems relevant above all when the risk is not to the policyholder but to third parties, as with automobile insurance. In these cases, there is no direct aversion to risk or incentive to take out insurance cover even though financial liability for the risk may greatly exceed an individual's financial capacity.

Thus, compulsory insurance has advantages if lack of appropriate coverage cannot be immediately offset by greater risk awareness, if it enables premiums to be reduced because the risk is spread more widely, or if it enables the entire population to be protected. In jurisdictions where an insurance culture is lacking or where the market is only beginning to emerge, it may also be helpful in promoting wider use of insurance and familiarizing individuals with insurance as a means of protection.

Nevertheless, some emphasize that compulsory insurance should not be regarded as a systematic solution, for various reasons. First, it is not necessarily appropriate for the entire population or section of the population. Second, it may pose other problems relating to market capacity, moral hazard and risk selection for insurers. Third, it may have a contrary effect with regard to consumer responsibility and education. As a general rule, compulsory insurance should not replace consumer information and education or serve as a reason for not providing them.

In fact, compulsory insurance probably requires more information, regulation and supervision to protect policyholders and inform them of their obligation and of the products on offer. In some provinces of Canada and in Italy, for example, motor TPL insurance policies contain more information. Likewise, in France tighter supervision is deemed necessary when insurance is compulsory to ensure that the obligation is respected and that coverage is appropriate. In Finland, information about compulsory insurance is specifically provided by the authorities or bodies in charge, including the motor insurer's Centre, the Patient Insurance Centre and the Social Security Institution.

114. Second, with a view to promoting competition, transparency and quality service for consumers of insurance products, OECD governments, at national, regional and national levels,⁵⁹ are endeavouring to harmonise regulations between institutions, products and states or countries. Most OECD countries have also reformed or are considering the necessity to modify their regulations relating to the quality and

relevance of information on insurance and the way they are provided by insurance undertakings and intermediaries to potential consumers and policyholders.

115. Lastly, procedures to help, advise and protect consumers who have disagreements with their insurers have been introduced in most countries to guide consumers through the process, to mediate settle and provide appropriate redress mechanisms when needed (see Annex 2 for details on mediation and redress mechanisms). In some countries, insurance (or financial services) mediator or ombudsman has been appointed on the initiative of the government or the industry. Most of them have the task of guiding consumers who wish to make a complaint and of finding a solution or compromise with the insurer. They also have the advantage to collect data on possible and recurrent mis-selling in the market and of proposing ways to address these difficulties without affecting insurers' reputations.

B. Role of insurance market players and their intermediaries⁶⁰

116. As mentioned in Part I, role of insurance market players and intermediaries is central, on the one hand, to provide necessary and objective information on insurance policies, and on the other hand to advise consumers on insurance products and coverage best suited to their needs. In pursuing these key roles, insurance providers and intermediaries are regulated and supervised in most OECD countries. In addition, some insurance market players have chosen to develop good selling practices and codes of conduct to best integrate financial education within their governance structure and mechanisms.

117. In this perspective, a distinction should be made between the general information about insurance, insurance products and insurance providers available from a vast number of stakeholders and information and advice provided by insurance companies or their intermediaries directly to their customers and consumers in a commercial context. It should also be noted that the accountability of companies in this respect mainly concerns their direct customers.

1) Respective roles of insurers and intermediaries

118. Because of the evolutions sketched out in Part I, insurance undertakings and a wide range of distributors play increasingly important, though distinct, roles in the provision of information and advice to potential policyholders. Against this backdrop, the respective roles of insurance underwriters and intermediaries and the extent of their responsibilities are most of the time clearly delimited and defined in OECD regulation and/or codes of good practices and of conduct.

119. Typically, insurers are mostly responsible first for the drafting and pricing of contracts and for determining to which customers/policyholders' profile and risk-exposure they are best suited. Second, insurers are generally also responsible for the provision of means (information and possibly training) necessary to the smooth distribution of the concerned insurance products. Intermediaries, on the other hand, are generally responsible for the communication of the information first provided by the insurer and for advising –when relevant– potential customers. Of course the two functions may be combined if insurers are directly selling their products.

120. The advisory function of intermediaries (or of insurers directly selling their products) is often emphasized insofar as most surveys⁶¹ conducted in OECD countries show that a large majority of customers/consumers do not shop around and mainly rely on their intermediary to provide them necessary information and to guide their choice between various insurance policies and providers. Intermediaries also play an increasingly important role during the lifetime of a policy and when submitting claims or making a complaint. In principle, intermediaries and insurance companies' agents and other providers or distributors of insurance policies are specialists where insurance matters and specific products are concerned and also

enjoy a close relationship with consumers. This position theoretically enables them to give consumers the advice best suited to their needs.

121. However, a number of cases of mis-selling (deliberate or otherwise) and the diversity and complexity of the status of insurance providers and intermediaries suggest that they do not or are not always able to properly fulfil these roles. In this respect, education and advice on insurance issues should probably be further integrated in both insurers and intermediaries' governance structure and selling practices. In this respect, in addition to legal obligations, a number of associations of insurers⁶² and intermediaries⁶³ have issued codes of conduct designed to ensure that their members' practices are in their customers' interest. They also offer their members specialised training and materials to better inform and guide staff selling insurance products⁶⁴.

2) *Provision of appropriate and quality information*

122. The provision of information on contracts and policies either directly or through intermediaries is mainly insurers' role. As mentioned by some delegations, such task is essential in the financial education process in order to enable policyholders to compare products and make informed and sensible decision on insurance policies and products. In this respect, most OECD countries have developed extensive regulation or self regulation as to what information insurers in particular and intermediaries should provide to consumers on both products and providers. As this is not in the scope of this paper to describe extensively regulation or good practices in force relating to information disclosure, this is dealt with in more details in Annex 3.

123. At the same time, emphasize should certainly be put on the fact that in many OECD countries legislation and codes of good practice increasingly insist less on the amount and details of the information to be provided to consumers –which is already usually broad- and more on the simplicity and intelligibility of pre-contractual information in particular and on the form in which information should be made available to consumers. For instance, in some OECD countries, regulation particularly relative to life insurance contracts require that consumers be provided with a short information note relative to the product and summarizing its most important features in a clear and synthetic way. A number of Delegations also stresses the importance of providing timely information (before the subscription of the contract and at time of renewal), in clear and simple language, avoiding technical terminology, in the language of the country (or of that used by a substantial proportion of the population), without small print⁶⁵.

124. Some countries such as Spain have also developed specific regulation to run the selling of contract through internet (providing for instance that insured should be aware of the possibilities for cancellation of the policy and should be hand out at least a paper copy of the insurance sector).

3) *Development of adapted and neutral advice*

125. The central role played by intermediaries in providing information and advices to consumers is acknowledged by most OECD countries. This is notably reflected in the development of regulatory requirements aimed at guaranteeing that selling practices best take into account consumers' profile, needs and interests; at ensuring that advices are objective and can be clearly distinguished from promotion; and at enhancing on-going and appropriate training procedures for staffs and establishments that distribute insurance products (e.g. intermediaries, agents as well as other types of distributors such as banks, etc) and for advisors in the sector (see details in Annex 4).

4) *Role of insurance market players in a non-commercial framework*

126. Aside from their role of information and advice in the commercial context, some insurance market players have developed separate activities aimed at raising the awareness of citizens on particular risks or

at making them more knowledgeable and capable on insurance products. This may be done through *inter alia* the development of a dedicated website offering advices on what insurance products are needed, assessing the needs of consumers and comparing products. Many insurance companies and large intermediaries have developed such kind of website in the last years. This can also be achieved through a wide range of other initiatives including: the elaboration and provision of dedicated training materials to teachers of school children and students (as long as such documents avoid advertising for a specific company); encouraging insurance staffs to intervene in schools and seminars to better inform and train citizens on insurance issues; and the funding of independent institutes and foundations aimed at instructing individuals on insurance issues. It should however be noticed that this type of activities is still limited in OECD countries for the insurance sector. Yet, the initiatives of some main key health insurers such as Blue Cross & Blue Shield of Rhode Island which has launched in July 2005, the first organization to enhance health literacy for all consumers may be worth noticing as an attempt to raise awareness on important health risk and helping consumers better dealing with health issues.

C. Roles of other social and economic stakeholders

127. Raising awareness on the importance of education in the insurance area and addressing the challenge of efficiently overcoming consumers' passive behaviours call for the involvement of other stakeholders in the provision of information and neutral advice about insurance.

128. Such initiatives are taken by a wide variety of players including associations of insurers, intermediaries and consumers, research bodies, foundations, rating agencies, firms, trade unions, etc. They offer varying degrees of information and advice, using diverse channels and tools.

129. Insurance industry associations are first important sources of information notably through their website helping consumers to gain a better understanding of the issues and to make informed comparisons and choices between products. A number of associations⁶⁶ in OECD countries provide basic information on insurance (needs, products) according to the type of consumer (family, single person, senior citizen, retired person, working person, etc.) to help them understand the terms and conditions of policies and contracts⁶⁷. The same organisations also often offer comparative tables of prices and products⁶⁸, as well as interactive calculators for specific products (such as life or home insurance). More detailed information about certain specific types of insurance, such as motor insurance (e.g., Profeco in Mexico), home fire insurance, life assurance, health insurance, long term care insurance, etc.) is also often available depending on the degree of development of the insurance market (e.g. associations in South Korea, the UK, France and the USA⁶⁹, state by state in the latter case). Likewise, intermediary associations⁷⁰ in various countries also participate in providing information and advice to consumers.

130. Some insurance associations also go further first developing codes of good practices (see previous section), developing targeted risk prevention campaigns (for instance on large-scale and health risk) and building partnership with public authorities to provide training and materials to enhance teachers and citizens knowledge and capabilities on insurance issues (see previous section on the instructing function of governments).

131. Consumer associations in a number of countries⁷¹ are also extensively involved in providing consumers with information, help and advice. The Dutch consumer association issues brochures and a magazine (*Geldgids*) that compares different products and gives advice. In Germany *Stiftung Warentest*, a government-funded consumer association offers information about the comparability of policies. The federation of German consumer organisations has also published a set of documents providing information and advice on insurance issues. In Austria the *Verein für Konsumenteninformation* organises seminars and lectures and offers individual consultations by phone, while the *Bundeskammer für Arbeiter und Angestellte* also offers assistance and similar information to its members. Various associations in

Switzerland, like the homeowner association and the small business association, provide their members with information about insurance matters.

132. In some countries, investor associations like the Investment Company Institute (ICI) in the United States also provide shareholders with personal finance information, including the situation of and products proposed by insurance companies.

133. Other private bodies like insurance research institutes (e.g. the Insurance Institute in Switzerland, the insurance training Institute in Turkey, the Insurance Information Institute in the United States), or safety organizations such as the Institute for highway Safety, the Institute for Building and Home Safety in the US, foundations and rating agencies intend to provide neutral, high-quality information about risks, insurance products and the situation of providers. Some jurisdictions have also seen a proliferation of associations specialising in insurance information, often by types of product⁷².

134. Corporations can also play an important role in informing and raising their employees' awareness on risks and insurance issues. Some of them are taking over from schools in exposing their employees to the insurance culture and providing them with knowledge and understanding of basic insurance products. This is probably more the case in countries where government protection has been historically relatively low and where the insurance industry has therefore taken up the slack through provision of group insurance policies (which may be more or less flexible and generally include retirement savings, healthcare, provident and life insurance products). It is not a coincidence that the first type of insurance designed to cover workplace accidents (sometimes initially offered by employers) appeared within firms. One interesting initiative in this respect is Aegon's innovative web-based software application, Benefit Solutions⁷³, which gives the staff of a firm that has signed up to the product access to detailed financial information, including a large number of insurance products, and enables them to carry out projections of their own situation in relation to risks before offering them a range of products adapted to their profile.

PROGRAMMES AND TOOLS TO ENHANCE RISK AWARENESS AND EDUCATION ON INSURANCE ISSUES

A. Programmes targeting severe risks and vulnerable populations

135. Firstly, information designed to raise awareness on risks and on the importance of protection against severe risks –including through insurance- is often a matter for governments, at least for catastrophic risk and long-term risks (e.g. life assurance for retirement, long-term care and invalidity) that people are generally unable to apprehend clearly. In Mexico, the National Natural Disaster Fund (FONDEN) organises disaster risk prevention and security campaigns. In Israel, some awareness campaigns on prevention measures and coverage against earthquakes and more importantly terrorism risks are encouraged. Recently the Israeli government appointed a Committee to advise the government and the public on how to better cope with natural disasters. One of the core issues which will be considered is the importance of appropriate insurance and how to achieve this goal. In Spain, the Consorcio de Compensacion de Seguros (CCS) is committed to providing compensation for losses incurred as a result of extraordinary risks. In this context, it is currently considering programmes aimed at better preventing and reducing losses. This project would include the launch of preventive campaigns and measures. In the US, especially after the last series of hurricanes and consecutive floodings, media campaign and coverage have been intensive notably to enhance population awareness of the needs for an appropriate coverage against catastrophic risks including floods⁷⁴.

136. Associations of insurance companies may also run information and prevention programmes of this type. In Japan, for example, the General Insurance Association of Japan regularly conducts large-scale prevention campaigns to increase consumer awareness of earthquake risks and their need for protection against them. In Germany, the GDV (insurance association) is involved in road safety programmes and has also created a website for children, using games to show them and tell them about basic safety measures. In France a specialist association, *Assureurs, Prévention, Santé*, is helping to create health risk prevention programmes and recently launched a campaign on child obesity. In 2000, after a series of floods and other natural disasters, the FFSA and GEMA (*Groupement des Entreprises Mutuelles d'Assurance*) got together to create an association, *Mission risques naturels*, to raise awareness of natural risks and provide technical input to the prevention policy. In the UK, the ABI website provides general advices on flooding. Moreover, the ABI works in collaboration with the Environment Agency in order to support the insurance industry's commitment to continue offering flood risk insurance to the vast majority of homes and businesses in flood risk areas. In the US, the America's Health Insurance Plans, an association of health insurers, has launched a wide strategy and elaborated recommendations seeking to raise awareness on health risks and the need for enhance health literacy of consumers⁷⁵.

137. As mentioned earlier, some information campaigns target specific segments of the population or seek to promote certain policies. In Finland, information programmes targeting young adults and immigrants have been introduced in certain regions. At the same time, the Finnish consumer agency has created a set of brochures containing advice and instructions on financial management and protection at key times involving a change of situation, such as buying a first home, retirement or unemployment, death, divorce, etc. In Germany, the family ministry, the consumer association and banking and insurance industry associations have created a website⁷⁶ designed to help students improve their financial knowledge. The portal includes general information about insurance products. Small businesses and their particular

insurance needs are also often the target of specific information programmes, like the one developed by the FSA in the United Kingdom or the NAIC in the United States.

B. Role of the media, traditional tools and modern communication devices

138. The various players vie with each other in their creative use of media to circulate information appropriately and effectively and increasingly seek proximity and interactivity with consumers. Traditional paper media (leaflets, brochures, guides, publications) are complemented by poster campaigns, advertising, prevention and information campaigns in the media and, increasingly, by the internet, mobile phone, call centres, helpdesks and direct advice centres. Events like lectures, conferences and speeches are also designed to involve consumers more. Again it is worth stressing that the quantity of information available is probably less important than ensuring that it is in clear language that the target population can understand and that access to information is as simple and straightforward as possible. Various means are used or planned to that end.

139. A range of public bodies, especially supervisory authorities, and private players, issue printed materials such as brochures, guides, periodicals, statistics, etc. The German insurance industry information centre produces a series of guides called "*Zukunft Klipp und Klar*" targeting specific subgroups of the population (families, single people, senior citizens, working people), while the association of insurance companies has published clearly presented and well-illustrated brochures describing situations in which insurance is important, the advantages of insurance and contact points where readers can obtain further information before taking out a policy. In Canada, the CCIR is involved in a project that seeks to promote good practice in the selling of products and services in the financial sector. One key element of the project is the publication of a consumer's guide to financial transactions. In Italy in 2004, a practical guide to insurance was published as a pull-out supplement to a newspaper with extensive nationwide circulation, providing non-technical information in simple language about the most common insurance products (motor insurance, life assurance, and pension). In the Netherlands, a leaflet has been available to consumers since 2002, providing objective, comparable and precise information about the main characteristics of complex insurance products. In Poland, the insurance ombudsman publishes an insurance magazine, sent to consumer associations, insurance companies, universities and private individuals. In Japan, the central council for information on financial services published a guide to financial education in March 2005.

140. All the mainstream media (TV, radio, press, posters) have become natural channels for prevention campaigns targeting certain risks and promotion campaigns for certain types of essential cover (motor, pension, long term care, etc.) or to increase general awareness on the importance of financial education. The Polish insurance chamber's strategy is particularly instructive in this respect, seeking to inform and sensitise journalists to the world of insurance with the aim of raising the overall level of information about insurance within the media as a whole. A set of initiatives has been under way since 2003, including specific meetings for journalists with major insurance companies (ING Nationale Nederlanden, TUnZ SA, PZU SA). In Australia, the creation of the Financial Literacy Foundation, the launching of its website and the organisation of a first Financial Literacy Forum held in Canberra in September 2005⁷⁷ has contributed to enhance awareness and media coverage on financial education issues.

141. The internet has become another channel for information, comparison and specialist advice and is used by frontline public and private bodies in most OECD countries⁷⁸. Most of the supervisory authorities or ministries directly involved in regulating the insurance sector have a website, and often a subsite⁷⁹ dedicated to consumer information and/or education (see box 3), providing a wide range of information about products, providers, regulations, etc. Likewise, insurance industry and consumer associations are making an extensive use of internet possibilities. The chief attraction of the internet is as a means of providing a wide range of information to consumers interactively and of comparing products from different providers while adapting to the consumer's profile.

142. Some authorities and other bodies, especially ombudsmen and consumer associations, also run call centres and helpdesks⁸⁰.

Box 3. Selected websites

In Mexico, CONDUSEF is specially tasked with promoting financial education, regarded as a means of prevention enabling consumers to understand unclear contracts or doubtful transactions. Through its website⁸¹, the commission explains various types of insurance contract and the coverage proposed by the insurance market. It also gives information about insurance agents and approval procedures for intermediaries, together with tables comparing, inter alia, motor and health insurance prices, insurable risks and exclusions. At the same time the CNSF, the financial services regulator, also has a website⁸² that provides information and data about the situation of insurance companies.

In Italy, part of the ISVAP site⁸³ is dedicated to consumer information, especially relating to life assurance and compulsory motor TPL insurance. The life assurance sub-site includes a guide which gives consumers detailed information about the main features of such contracts in simple and clear language.

In Spain, the DGSFP website⁸⁴ includes comprehensive information on existing insurance regulation relevant for consumers, information about the industry (i.e. insurers, intermediaries and channels). Information on the coverage provided by the CCS is provided through its own website⁸⁵.

The Canadian Life and Health Insurance Association has created a sub-site on its portal⁸⁶, offering assistance to consumers and providing both information in the form of a guide and tables and personalised online or phone assistance.

In the US, the NAIC website⁸⁷ hosts a "Get smart about insurance" week, which takes place on an annual basis. It is an opportunity for consumers to test their knowledge about different types of policy (motor, life, home, health), to review their coverage needs and assess their current policies, to receive advice about cancelling or changing a policy and to obtain comprehensive information about products, insurance terminology, providers, etc. NAIC comprehensive sub-site dedicated to consumers also provides them with key advices/tips (compare/shop around, get information on the company, assess your needs once a year), evaluates their needs according to their life style and offers guides for each type of insurance as well as quizzes and training to enhance consumers' capacity and knowledge on risk and insurance.

C. Evaluation of programmes

143. Research into the impact of programmes aimed at enhancing risk awareness and insurance literacy and capability is considered by most Delegations as essential to avoid unnecessary expenses and ensure a fine-tuning and appropriateness of any new policy measures put in place. Yet, the survey of OECD experience also suggests that for the time being, little analysis of how such programmes perform is widely carried out. As already pointed out, awareness of education needs in insurance is relatively new. Consequently few comprehensive programmes coordinating main stakeholders' initiatives relative to insurance education have been introduced and, when they have, they are often too recent to be evaluated. There are plans in the Netherlands, for example, for an independent research body to measure the effectiveness of a financial information factsheet (including insurance) after two years. The regulation of financial services and their advisory role will also be assessed after a five-year period. Likewise, in the UK the comprehensive programme "Building financial capability" and its impact should be evaluated after four to five years. Regular evaluations of whether the anticipated benefits of each element of the programme are being delivered in practice are planned, as well as the publication of regular progress reports so that all stakeholders may take note of the difference that the programme is making on the ground.

144. Some types of assessment of the use, if not the impact, of programmes are often provided by the record of the number of users of dedicated websites established by insurance regulatory authorities. For instance, in Israel, the effectiveness of information and media campaign concerning the creation of the

insurance commission website (hosted on the Ministry of Finance website) is monitored through the number of visitors using the website. The results show an increased in the use of the site especially when combined with advertising the site on the media (mainly through radio broadcasting). Similarly in the US, the programme InsureU established by NAIC is being monitored through the number of users of the website and the number of participants to the quizzes proposed on the website.

145. Actually, even though relatively few examples⁸⁸ can be sketched out so far, many delegations have highlighted that evaluation of programmes should be probably be based on predetermined criteria depending on the policy objective assigned to financial education and involve as well a comprehensive estimated and ongoing cost and benefit assessment.

CONCLUSION

146. In most OECD and non-OECD member countries, current generations are faced or will have to face increased needs for coverage and saving to cope with new and increasing large-scale risks and risks (related to pension, health and savings) that are no longer or less covered by public, collective, corporate or family schemes and solidarity. Against this backdrop, solutions and possibilities offered by insurance market players are attractive. Yet they require a higher level of awareness, knowledge and understanding from individuals as they often involve the subscription of sophisticated products from various distributors and may also imply a greater risk-transfer on policyholders. Actually, consumers are still often ill equipped and literate to be able to properly bear these new responsibilities and make appropriate choice. This relatively poor capability on insurance issues is reflected in surveys' outcomes, in cases of mis-selling and more worrisome in the potential dramatic consequences of lack or inappropriate-coverage when adverse events occur.

147. These needs for enhanced risk awareness and education on insurance issues seem to be unequally perceived and addressed by the various stakeholders and public opinion. Awareness of the issues has seemingly increased in many OECD member and non-member countries, an assertion borne out by the number of public and private initiatives to that effect. Yet, even if some inventive projects and programmes are launched, they still often lack overall coherence and assessment of their actual impact on consumers. Furthermore, the regulatory prudential framework could be further harmonised between providers and between jurisdictions and better adapted to the emergence of new policies products and insurance providers. Amongst other things, such changes would help to make the insurance market more transparent and increase consumer confidence.

148. In this context, the proposals for good practices for enhanced risk awareness and education on insurance issues² take account of these challenges, of the relevant experience of certain countries and of possible shortcomings to offer some alternatives and avenues in order to raise the level of risk awareness and education in insurance of the public at large.

² Available on the OECD website at www.oecd.org/daf/insurance

NOTES

- ¹ This report covers the 25 OECD countries which have responded to the questionnaire on financial education in the insurance sector, as well as the European Commission and observers in the Insurance and Private Pensions Committee which have provided contributions and notably Israel. The views and contributions of national associations of insurers and of federated groups – the CEA- , and of international association of mutual insurers – ICMIF-, international association of intermediaries – the WFII- and some national associations of consumers have also been taken into account and reflected when relevant and appropriate.
- ² Specifically excluded are programmes that offer recommendations regarding individual insurance products and services, for example, advice recommending the purchase of insurance policy X offered by insurance companies Y.
- ³ See Bech. Ulrich, *Risk Society, Towards a new modernity*, Sage, London, 1992.
- ⁴ Even if other risks like famine, war and certain pandemics have been almost entirely absent for several decades, at least in OECD countries.
- ⁵ Public social spending almost doubled between 1960 and 1980 on average in the OECD countries but has been falling since 1993. Source: *Society at a Glance*, OECD, 2005.
- ⁶ In areas such as healthcare (for more information on the role of private health insurance, see *Private Health Insurance in OECD Countries*, OECD, 2004), invalidity, incapacity or long-term care, pensions, income replacement in the event of natural disasters or terrorist attacks and various forms of financial protection (loans, vacations, etc.).
- ⁷ In the United States, private insurance accounts for 10% of GDP (and public social spending for only 14.8%) and for over 40% of all social spending. In France, it accounts for only 6.5% of all social spending. Source: *Society at a Glance 2005*, OECD.
- ⁸ For example, reinsurance of flood and terrorism risk in France or extraordinary risks (including terrorism) in Spain. For more information about State involvement in covering large-scale risks, for natural disasters see *Policy Issues in Insurance* no. 6, *Environmental Risks and Insurance* and no. 8, *Catastrophic Risks and Insurance*, and for terrorism see no. 9, *Terrorism Risk Insurance in OECD Countries*.
- ⁹ For claims-made policies (increasingly used to cover liability risk in particular) to apply, the claim must be made before the policy expires. That is not the case with loss-occurrence policies, where the policy must simply be current when the incident occurs.
- ¹⁰ December 2002, Quantum Market Research part of a series of Consumer and Business Insurance Tracking Studies carried out by the Insurance Council of Australia.
- ¹¹ See for instance, Jeremy Mitchell, *Financial Skills for Consumers*, International Consumer Policy Bureau, 1993.

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- 12 This was and is especially true in countries such as the UK, Sweden, Belgium, the Netherlands, France and Italy. This evolution has also recently reached other European markets such as Austria, Portugal, Switzerland and Spain for various reasons (e.g. pension reform, low interest rates and low profitability of conventional insurance policies). In Spain, in 2004/2005 the growth in premiums for unit-linked insurance products has been around 50%, representing 11% of technical provisions of the life-insurance sector.
- 13 In addition to motor insurance or work accident insurance (often part of the public social protection scheme), which are compulsory in nearly all OECD countries. See M. Fontaine and H. Rhodes, "Compulsory Insurance in OECD Countries" (2004), in *Policy Issues in Insurance* no. 7, *Insurance in the Baltic Countries*.
- 14 See for instance, report from the NZ ombudsman and Canadian and UK Consumers associations.
- 15 Most insurance contracts include a questionnaire (often including health conditions criteria) designed to help the insurer price the risk more accurately. Consumers generally have a statutory or contractual obligation to provide the insurer with all relevant information about their exposure to the risk for which they seek coverage. Failure to comply with this obligation can be very damaging to the policyholder. If it transpires during the lifetime of the policy or on a claim for compensation that the policyholder has failed to disclose certain health conditions, the insurer will deem the policy invalid. The insurer will then be entitled (unless a court decides otherwise) to refuse to cover the policyholder in the event of a claim, even if the claim is unrelated to the undisclosed information. However, it is often difficult for consumers, in all good faith, to judge what information is relevant to their exposure to risks of which they themselves often have only an imprecise notion.
- 16 Segregated Funds combine the growth potential of mutual funds with the security of insurance. They are mainly sold in Canada as flexible investment products including a variable capital guarantee.
- 17 Some department store chains, for example, are proposing life insurance products in some OECD countries.
- 18 Overinsurance refers to the situation where households have coverage in amounts greater than the value of the property insured or the amount of loss sustainable by the insured; for example, several policies of hospitalization insurance for a total amount in excess of daily room charges.
- 19 UK consumer magazine "Which?" has reported cases of consumers being given false information, such as that income replacement insurance (in the event of death or unemployment) was mandatory for people taking out a mortgage.
- 20 E.g. greater or lesser aversion to risk, wish to be involved in managing the entity, preference for a certain type of ethical approach and follow-up during the lifetime of the policy.
- 21 See for example the discussion paper of the Australian working party on financial education and consumers, *Australian Consumers and Money*, p. 8-45, June 2004.
- 22 See Saltz, K. Mahoney, R. Lusky and A. Wright, *Identifying and Promoting Consumer Awareness of Long Term Care Insurance in Connecticut*, 1992, or Laurence Assous and Ronan Mahieu, *Le rôle de l'assurance privée dans la prise en charge de la dépendance: une mise en perspective internationale*, working paper no. 21, Direction de la recherche, des études, de l'évaluation et des statistiques, November 2001.
- 23 See FSA, *Financial capability in the UK: Establishing a baseline*, 2006.
- 24 For more information on the role played by micro-insurance products to strengthen insurance culture in vulnerable groups of the population and thereby to improve their protection and safety against severe risks see, for instance, Churchill, C (ed) 2006. *Protecting the poor: A microinsurance compendium*, Geneva: ILO.

25 Albeit with a 5% penalty and the withholding of a sum equivalent to 10 years of premium payments from reimbursement of the claim (limited to \$250,000 for home insurance). Coverage would not include the contents of dwellings or the additional costs of everyday living. There would also be an obligation to maintain the subscription to the program for the property concerned for life.

26 In some countries this has been the case with whole life assurance products sold to consumers who had more need of short-term savings products. The Polish Chamber of Commerce has reported that in 2001-02, a large number of individuals cancelled their life assurance policies (especially policies linked to investment funds) before they matured. Consumers cancelled their policies -on average after only three years- mainly because they thought that they had subscribed short-term savings contracts (eg, in short-term bank saving accounts or equities) and that insurance policies seemed unattractive compared with the yields on such products. In many cases, both consumers and insurers lost out on the cancelled policies.

27 Estimates by the Australian insurance industry, 2004.

28 Source : « Getting home insurance right » ASIC. www.fido.assic.gov.au

29 The Association of British Insurers (ABI) in the UK and the National Association of Insurance Commissioners (NAIC) in the US.

30 Source: Insurance Information Institute, 2004.

31 On this subject, see for example: S, Parente, D. Salkever and J. Da Vanzo: *The role of consumer knowledge of insurance benefits in the demand for preventative health care among the elderly*, NBER, Working paper 9912, August 2003.

32 Source: Ronald D. Verzone, *Where to go from here* in Best Review, February 2002

33 See for example *Policy Issues in Insurance*, no. 7, *Insurance in the Baltic States*, and no. 10, *Reforming the Insurance Market in Russia*.

34 For further information on behaviour as regards risks, see for instance:
- Grenn, CH, 1990, Perceived risk: past present and future conditional in Handmer J.W. and Penning-Rowse E.C., eds, Hazards and the communication of risk, Gower Technical, Aldershot;
- Lane SN, Berger A and Sandercock AJ, in press Flood warning systems , people and institutional response: evidence from the Easter 1998 floods in *Central England Applied Geography*.

35 The study is generally based on a sample of 1200 people aged over 20 and the results are published on the Institute's website at www.kidi.or.kr

36 In particular the financial capability survey highlights the following main challenges: individuals are not saving and/or protected enough for/against long-term risks (in particular to cope with the consequences of ageing), many people are subscribing inadequate policies or are taking inappropriate risks and more worrisome the greatest demands are often placed on those least equipped to deal with them.

37 Of course the result of such data collection should be interpreted with cautious in so far as many factors can explain the amount and evolution of complaints if not otherwise qualified. For instance, an increase in the number of complaints will not necessarily mean that the number of mis-selling or fraudulent selling is increasing in the market, but may be that consumers are more aware of their rights to sue or to seek advices.

38 For instance, see in the US, NAIC surveys, in the UK, FSA, Building capacity initiatives and in France see Delmas: *Rapport relatif à la commercialization des produits financiers*, November 2005 (including life insurance products).

39 Source: *Leadership in Consumer Literacy*, Jeremy Mitchell, International Consumer Policy Bureau, 2003.

40 See "Check Your Financial Knowledge" on the FSA website (www.fsa.org) or "Get Smart About Insurance" on the NAIC website (www.naic.org).

41 For instance, the FSA in the UK.

42 Article 51 of Spanish constitution stipulates that the public authority "to further the dissemination of information and education of consumers and users of services".

43 COM (2005)629, available at http://ec.europa.eu/internal_market/finances/policy/index_en.htm

44 For more details on this comprehensive programme see the seven points of the action plan contained in *Financial capability in the UK: Delivering Change*, 2006.

45 A federal programme tackling financial education issues at large is carried by the US Treasury. Specific education in the insurance area is also being undertaken by the NAIC.

46 This report does not aim to give a detailed list of all educational programmes relating to insurance in OECD countries, especially as a report on financial education programmes (including insurance) should be prepared in collaboration with the Education Committee as part of the ongoing financial education project. In addition, it should be stressed that, for the time being, since insurance mechanisms and the insurance market are considered complex, these notions often do not appear until late in the secondary curriculum, and even then mostly as part of specialist cycles for students intending to pursue a career in that field.

47 For more information see the Ministerial Council on Education, Employment, Training and Youth Affairs (MCEETYA), <http://www.mceetya.edu.au/public/public.htm>.

48 The pack contains 5 modules: planning for the future, ethical investment, e-commerce, genetics and insurance, and taking out a loan.

49 To give just a few examples, Austria has the Association of the Austrian Actuarial College, the Austrian Insurance Industry Training Centre and the Austrian Association of Insurance Experts; in Spain, the Universidad Pontificia de Salamanca has created the Faculty of Insurance, Legal and Business Science in Madrid; while Switzerland has courses in insurance offered by the Swiss Professional Education Association and the Swiss Insurance Institute.

50 For more information see the website of the NIC : www.cosumo@inc.es

51 See www.understandingmoney.gov.au

52 See also Mission Delmas-Marselet, *Rapport relatif à la commercialisation des produits financiers*, novembre 2005.

53 For example, BAFin in Germany, the financial services supervisory authority in South Korea, the National Association of Insurance Commissioners in the United States, DGSFP in Spain, CCAMIP in France, the Insurance Commission in Israel, ISVAP in Italy, CNSF in Mexico, AFM in the Netherlands, FSA in the United Kingdom and the Federal Office of Private Insurance in Switzerland are involved to varying extents in providing consumers with general information about risks, insurance and insurance products.

54 See for example the websites of the ISVAP in Italy, of the Insurance Commission hosted in the Ministry of Finance website in Israel, the FSA in the United Kingdom, CONDUSEF in Mexico, NAIC in the United States, the insurance commission in California at www.insurance.ca.gov.

55 See for example the websites of the FSA, the ABI, the NAIC and the German consumer association.

56 The Weiss agency in the United States, for example, provides a free, online list of the insurers with the lowest ratings.

57 Tax incentives for private health insurance exist in Australia, Austria, Belgium, Canada, France, Germany, Greece, Ireland, Italy, Luxembourg, Mexico, the Netherlands, Portugal, Spain and the United States. For further details, see *Private Health Insurance in OECD Countries*, OECD, 2004.

58 Other modalities of mandatory insurance involving compulsory provision of insurance covers by providers are not dealt with in the report as they are not directly linked to consumers' awareness and education on risk, risk coverage and insurance issues.

59 In Finland, a government working party has recommended that all investment funds and investment service providers should be governed by the same regulations so that consumers have access to comparable information about the costs and risks of the various long-term savings products on the market. In Canada, the Canadian Council of Insurance Regulators is tasked with harmonising and simplifying insurance regulations between states and promoting standards for the information to be provided to consumers. In the United States, the NAIC is carrying out projects to harmonise certain aspects of insurance regulations at federal level. Within the European Union, the ongoing harmonisation of regulations relating to the role of intermediaries and consumer information about insurance policies and the coverage they provide is helping to make the market easier for consumers to understand.

60 For an overview of the role of intermediaries, see the relevant section of the World Federation of Insurance Intermediaries website at www.wfii.org.

61 For instance see, *Leadership in Consumer Literacy*, Jeremy Mitchell, International Consumer Policy Bureau, 2003.

62 For example, in Belgium, associations representing the insurance industry and intermediaries (i.e. Febravel, FVF UPCA and Assuralia) have developed a code of conducts relative to advertisement and information on life insurance products. In Canada, the Canadian Life and Health Insurance Association has drawn up codes of good practice. In Greece, the industry has also developed codes of ethics as regards the provision of simple and comprehensible information on insurance contracts. In Spain, the General Council of Associations of Insurance Intermediaries and the Spanish Association of Insurers (UNESPA) jointly drafted and adopted in March 2001 a code of good practice between insurance brokers and insurers that establishes greater transparency in their dealings. The UNESPA has also developed a guide specifically devoted to selling practices in order to ensure appropriate understanding by consumers of the functioning of the contract (e.g. basic understanding of the coverage and possible exclusion of the contract, its prices, understanding of the role played by the age and gender factor in covering certain risks, understanding of the importance of appropriately filling in health questionnaires, and how this information is being used by insurers). In the UK the ABI has developed codes of good practice for different types of policy (life, long term care, travel, mortgage, etc.). The General Insurance Standards Council has also introduced rules of conduct for the entire sector (including good sales practice). These are the rules that the UK ombudsman looks at when investigating consumer complaints. In the United States, the Insurance Marketplace Standards Association has introduced good practices and an ethical code in the life assurance sector, which its members undertake to comply with.

63 Like the National Insurance Brokers Association in Australia.

64 See Annex 3, for more details on information note developed in this respect by representatives of the industry in Belgium.

65 This is also suggested by the OECD Recommendation on Principles and Good Practices for Financial Education and Awareness (available at www.oecd.org/daf/financialeducation).

66 Such associations include the Australian Bankers' Association (www.bankers.asn.au), which has developed a specific booklet entitled Smarter Insurance, the Austrian Association of Insurance Companies in Austria, the Association of Insurance Companies in Greece, the Association of Damage Casualty Insurers (GVD) and the insurance industry information centre in Germany, the UNESPA in Spain, the Association of Life Insurers and the Non-Life Insurance Association in South Korea, the American Insurance Association and National Association of Mutual Insurance Companies in the United States, the Federation of Finnish Insurers in Finland, the Association of Life Insurers and the General Insurance Association of Japan, the Association of British Insurers in the United Kingdom, and the Swiss Insurance Association in Switzerland.

67 For example, the Insurance Bureau of Canada and the Canadian Life and Health Insurance Association (CLHIA), the insurance association information centre in Germany and the consumer association website (www.stiftung-warentest.de), the FFSA information centre in France, the insurance association websites in Japan.

68 For example, in Germany, South Korea, France, the UK and Switzerland.

69 US insurance company trade associations, such as the American Insurance Association, provide information to the general public, policymakers and the news media about risk, insurer practices and specific public policy issues such as natural catastrophes, obtaining full coverage, auto and home safety and the use of credit information.

70 The National Insurance Brokers Association in Australia, the Insurance Brokers Association of Canada, the Irish Brokers Association, the British Insurance Brokers Association, etc.

71 Like the Consumer Agency in Finland and "Which?" in the UK.

72 Such as www.insure.com, the Health Insurance Information Association (www.healthinsurance.info.net) and the Long Term Care Association (www.mr.ltc.com) in the USA.

73 www.benefitsolutions.co.uk

74 For further information on media coverage of flood risk in the US, see notably the Insurance Information Institute website: www.iii.org and notably Robert P.Hartwig: *the Challenge of Communicating Flood Risk*.

75 For more details see the AHIP website: www.ahip.org

76 www.unterrichtshilfe-finanzkompetenz.de

77 The Forum was held at the Parliament House on Friday 16 September and gathered the advisory board of the Foundation, Australian government's representatives, business, education and community sector leaders to be on hand to lend their expertise. The Financial Literacy Forum explored the key elements of the Government's strategy to ensure a nationally coordinated approach to achieving its commitment to help all Australians increase their financial knowledge, and better understand the options and choices they can make in using and managing their money.

78 It should however be underlined that population access to internet remains limited including in OECD countries; and this is all the more true for most deprived segments of the population.

79 For example in Belgium, France, Germany, Israel, Italy, Mexico, South Korea, Spain, Switzerland, the United Kingdom and the United States.

80 For instance the Public Unit Support established by the DGSFP in Spain.

81 www.condusef.gob.mx

82 www.cnsf.gob.mx

83 www.isvap.it

84 www.dgsfp.meh.es

85 www.conorseguros.es

86 www.clhia.ca

87 www.naic.org/consumer_home.htm

88 Other examples of assessment of limited scope could be mentioned. In Japan, for example, the FSA carries out an opinion poll of teachers concerning the manuals the authority distributes to students. Likewise, the Japan Institute of Life Insurance and the General Insurance Association of Japan carry out subsequent assessments of their various programmes. Besides, in the UK, the Department of Work and Pensions has commissioned ECOTEC Research and Consulting Ltd in order to review the current provision and effectiveness of financial education throughout the UK (details of these works and results may be found at www.dwp.gov.uk/publications, Informed Choices for working and savings). An audit of resources for financial education and *inter alia* of the skills of teaching adults was also carried out by the *Basic Skills Agency* (see www.money-bsa.uk).

ANNEX 1

SOME NATIONAL PROGRAMMES AIMED AT STRENGTHENING FINANCIAL EDUCATION

149. The UK Financial Services Authority³ (FSA) initiative entitled "Treating Consumers Fairly"⁴ should first be mentioned. Amongst other things, this project at the address of the insurance industry includes a strategy for assessing problems on this market arising from information asymmetry in particular, and introduces processes including self-assessment by companies, with the extensive involvement of the various stakeholders. Furthermore, within a more global and long-term approach, the FSA has also launched in November 2003 a programme called "Building Financial Capability"⁵, headed by a steering committee – comprising the government, the financial services industry, corporate representatives, trade unions, media, consumers associations as well as the associative sector. This project is designed to improve overall citizens' financial education including making them aware of the role of insurance in protecting against sudden and unforeseeable accidents. The programme has started with a survey of 5300 adults across the UK to create a comprehensive picture of UK citizens' financial literacy level.

150. Other jurisdictions also have specific plans to coordinate the viewpoint and actions of several public and private stakeholders in the financial education area, generally through supervisory authorities or specialist committees. In Australia, the Financial Literacy Foundation created in June 2005 within the department of the Treasury is responsible for many new initiatives including: a wide national information and awareness campaign, the creation of a financial literacy website⁶, in partnership with the main public and private stakeholders, the facilitation of financial literacy programmes in schools and workplace and financial literacy research in order to elaborate future strategies.

151. In Japan, a liaison committee with members drawn from the government (FSA and other administrations and agencies) and the private sector (banks, investment firms, insurers) has been set up to assess and improve the level of financial education among the population. A private advisory group to the financial services ministry, called the Financial and Economic Education Discussion Committee, has been formed to propose strategic guidelines.

152. In France, the Financial Sector Consultative Committee (CCSF), an official body whose members include representatives of banks, insurance companies and intermediaries, consumer associations and suitably qualified personalities, has been established to facilitate dialogue between professionals and their customers. As such, it has been tasked with producing recommendations on a range of issues identified as challenging in the insurance sector⁷, which its members undertake to follow.

³ The objective of promoting public understanding of financial systems is one of the FSA's statutory objectives. It implies understanding insurance (products, providers and the market).

⁴ Further information on this project is also available in the publications: «Treating Customers Fairly-progress and the next step» July 2004 and «Treating Customers Fairly- building on progress (July 2005) and downloadable from the FSA website: www.fsa.gov.uk

⁵ A document explaining the project of the working party on the subject is available on the FSA website: www.fsa.gov.uk/financial_capability/

⁶ See www.understandingmoney.gov.au

⁷ Including consumer information, borrower insurance and conditions for cancelling policies.

153. In the Netherlands a platform to raise financial awareness of Dutch consumers, CentiQ, was set up at the beginning of November 2006. CentiQ is a collaboration of organisations within the financial sector, the government, consumer organisations and science who work together within CentiQ to deal with financial decisions of Dutch consumers⁸. CentiQ's ultimate objective is to achieve that financial consumers are well informed, educated, and interested; play an active role in the financial markets; can confidently make well-considered financial decisions. The increasing number of complex financial products and the fact that consumers have their own responsibility to make financial choices, is one of the reasons to set up CentiQ. Another reason is the increase of debts among groups of consumers and the increase of the height of these debts. At the moment five projectgroups including the projectgroup budgetting, future perspectives and education are developing several initiatives to contribute to well-considered financial decisions by Dutch consumers. The projectgroup research investigates the financial understanding of the consumer, including how to enhance the financial awareness and motivation of consumers. The projectgroup communication deals with the internal and external communication of CentiQ.

154. In other countries⁹, it is mainly the supervisory authorities or umbrella authorities in the case of federations¹⁰, that are at least partly responsible for initiatives and for assessing financial education needs in the insurance sector. Various other ministries or independent bodies like ombudsmen¹¹, chambers of commerce¹² or even some insurance guarantee funds (Poland) may sometimes also be involved in various programmes.

⁸ see also <http://www.minfin.nl/centiq>

⁹ Such as Italy (ISVAP) and Mexico (CNSF).

¹⁰ Like the Canadian Council of Insurance Regulators (CCIR) or the National Association of Insurance Commissioners (NAIC) in the USA.

¹¹ For example in Austria, Finland, Germany, Greece, Poland and the UK.

¹² Especially in Canada, Germany and Poland.

ANNEX 2

MEDIATION AND REDRESS MECHANISMS IN SELECTED OECD COUNTRIES

155. Mediator and ombudsman have been established *inter alia* in Austria, Finland, Germany, Greece, Poland and the United Kingdom. For instance, in Poland, the insurance ombudsman has a particular responsibility for protecting consumers in a market where competition alone was considered insufficient to develop customer service. The ombudsman's function is to consider complaints and appeals and provide advice on relations between insurers (or pension funds) and their clients.

156. In France, the *Bureau des Relations avec les Assurés* (BRA) is tasked with processing, analysing and dealing with complaints and monitoring policies. As such it may ask an undertaking to reconsider a case, complying with its statutory or contractual obligations, but it has no powers of coercion. More broadly, the BRA also monitors and analyses insurance policies and observes market practices in the selling and performance of contracts.

157. The Spanish regulation requires insurers, like other financial institutions, to establish a customer support department or services which is in charge of addressing customers' complaints. Besides, insurers may also designate a "Defensor del cliente" (Customer's defender). Internal guidelines approved by the Directorate General of Insurance and Pension Funds (DGSPF) should govern customer support activities and relation between the insurer and customers. Moreover, these departments should submit every year an explanatory report on developments during the preceding year. A summary of the main outcomes of this report should be included in the insurer's annual report. The DGSPF has also created a public service unit which is part of its overall complaint services. This unit provides both face-to-face and telephone assistance to consumers submitting inquiries or who need to clarify any doubts regarding insurance policies.

158. In addition to such measures, in OECD countries, regulations and case law protect consumer/customer interests in the event of commercial malpractice, inaccurate or misleading information provided on subscription of a policy or during its lifetime, and of fraud. In most OECD countries, consumers are protected against inappropriate advice and the mis-selling of products by intermediaries and providers. In the European Union, insurers are responsible for the actions of their agents, whether intentional or negligent. Consumers may therefore seek damages from a solvent party. Intermediaries who give poor advice are directly liable to the consumer¹³.

159. In all countries, consumers/customers with a grievance against an insurance provider or intermediary can seek redress or bring a complaint before the supervisory authority or an independent public agency like Mexico's CONDUSEF. In Iceland, for example, the Complaints Committee can be accessed directly from the supervisory authority's website. In Italy, ISVAP's consumer protection division is responsible for consumer complaints relating to both life and non-life insurance and can be accessed from the ISVAP website. In the US, the NAIC website seeks to raise consumers' awareness on fake insurance and provides an online filing of complaints.

¹³ Under the European Mediation Directive, brokers must hold professional indemnity insurance for at least €1 million per claim and €1.5 million in aggregate each year for all claims.

ANNEX 3

**SELECTED REGULATIONS ON INFORMATION DISCLOSURE
ON INSURANCE PRODUCTS AND PROVIDERS**

Information on insurance products and policies: appropriate, timely and intelligible information

160. Most regulations in OECD countries mention, in more or less detail depending on the country or state, the information that insurers are required –possibly through their intermediaries- to provide to consumers concerning policies and their terms and conditions before and after the subscription of the contract.

161. These requirements generally include the type of insurance, the scope of coverage, exclusions and other restrictions (deductible, ceiling, floor, coinsurance), guarantees if any, the amount of the premium, the expiry date, conditions for renewal or cancellation¹⁴, how the policy is triggered, how to make a claim and the insurer's and subscriber's rights and obligations (right of cancellation, right of redress). As a rule, these obligations continue throughout the lifetime of the policy. The policyholder must be notified of any material change to the initial information (i.e. any change that has consequences, such as a change in the amount of the premium or the coverage). In addition, several countries have recently tightened up regulations relating to the information about insurance products and policies to be provided to consumers¹⁵, or have considered doing so. Implementation of the Directive in the EU member countries implies that providers and sellers of insurance policies should henceforth also inform consumers of all commissions, administrative charges and taxes to which they are liable in addition to the insurance premium. The regulations also state that mandatory information should be presented in such a way that consumers can compare offers from different providers (in terms of commission, charges and premiums). As a rule, the detail of these obligations also differs according to the type of policy concerned (life assurance with or without guarantees, non-life, casualty/property, liability, etc.). In Belgium, in March 2006, following the enforcement of a new regulation to comply with the EU directive concerning information duties of insurance distributors and intermediaries, associations representing the insurance industry have developed three informative notes approved by the CBA (respectively on life insurance, saving and investment through life insurance products and non life insurance) to guide intermediaries in their informative and advisory role.

162. Regulations in OECD countries often impose more specific obligations with regard to life insurance. Within the European Union, the life Directive (Article 34, paras. 52 and 53 of the preamble, Article 47) introduces an obligation to provide certain information but does not state in what form. Article 2.4 of the Settlement Finality Directive stipulates that pre-contractual information must be in conformity with the contractual obligations resulting from the applicable law. Most of the time, the obligations imposed by these two directives have been backed up by the domestic legislation of EU Member States.

¹⁴ In France, following the law of 28 January 2005 on consumer protection, the CCSF (a financial services advisory body) has examined the conditions under which policyholders are informed of their option of terminating tacitly renewable policies.

¹⁵ Reform of insurance policy law in Switzerland, recent amendments to Germany's law on supervision concerning consumer information, the work done by the advisory body in France created for that purpose among others. In the UK, a consultative document prepared by the FSA: "Informing Customers: product disclosure at the point of sale" details the information that should be transmitted to the customers before the subscription of any contract.

163. In Belgium, France¹⁶, Italy or Spain, regulations and self-regulation mention that the insurer should provide an information note or letter¹⁷ on subscription, describing the main characteristics of the policy and all the costs and charges payable to the insurance company (directly or in respect of unit-linked account). Additional obligations apply to unit-linked contracts, for example concerning the types of investment assets. The law on supervision in Germany and the Civil Code in the Slovak Republic define the information to be provided by insurers. Policyholders with life and accident insurance must be provided with information concerning the calculation of redemption value bonuses, the minimum amount guaranteed, the conditions of capital guarantees (if any) and the relevant tax treatment. In Italy, detailed information about the benefits, characteristics and financial risks of insurance products of an investment nature are required. The regulations also provide that policies must include a statement making it clear that past profit or interest is no guide to future profit or interest. In the UK, measures in effect since 1 May 2004 have made the management of unit-linked policies more transparent. Since then, life insurers should issue a document named “principles and practices of financial management” which sketches out the way funds are run and comprises information on the reporting of profits, bonuses and on the investment strategy of these policies. In New Zealand, insurers must provide potential consumers with an investment statement giving key information to help non-experts decide whether or not to take out the proposed life assurance.

164. Most of this legislation also includes an obligation to continue providing information, especially about the performance of the policy. In Germany¹⁸, France, Italy and Poland¹⁹, insurers must inform policyholders at least once a year of the amount of profits, the redemption value, bonuses, the interest rate guaranteed by the policy (in France beyond a certain threshold of mathematical reserves), the rate of profit-sharing and the yield on assets linked to the concerned policies.

165. Regulations relating to non-life insurance are often less comprehensive or more recent. In the UK, the FSA has regulated the non-life sector only since January 2005. A new regulation requires clearer information about policies before they are sold. This notably implies that insurers communicate to their future customers, information on key facts on the products and in particular inform them of the risks linked to the concerned policies. In Germany, in cases where private health insurance replaces the social security system, there is a statutory requirement to provide information about premium increases due to rising claims, the possibilities of limiting premiums after a certain age and exclusion (generally statutory) from coverage at an advanced age. In Italy, under the regulations defining appropriate information for motor insurance, insurers are required to provide potential policyholders with a free estimate adapted to their profile, information about the proposed coverage and the amount of premiums. The estimate is binding on the insurer if the policy is taken out.

166. In many OECD countries, requirements on the readability of contracts for non-experts consumers are also developed. In the Article 36 of Mexico's insurance law, for example, states that insurance contracts should be drawn up in Spanish and in legible type. The Polish law likewise establishes that contracts and their terms and conditions should be drawn up and presented in a way that is easy to understand. Similarly in Greece or Spain, requirements have been put forward to ensure that relevant, accurate and reliable

¹⁶ Financial Security Act, 2003.

¹⁷ According to Circular 506/2003 in Italy, a potential subscriber to a life assurance policy, for example, must be provided with an estimate of benefits and premiums during the lifetime of the policy, calculated on the basis of a 4.5% yield. However, these estimates based on yield assumptions are not subsequently binding on the insurer. In Spain such note should contain the following information: name of the insurer, its legal status and address, definition of guarantee and options offered, contract duration, conditions, terms and maturity dates for premiums, methods applied in the determination of profit-sharing allocation, surrender value, existence and nature of guarantees, premiums associated with the guarantees, definition of units of accounts (if relevant), applicable tax treatment.

¹⁸ Amendments to the law on supervision.

¹⁹ Law of 22 May 2003 on insurance activities.

information is provided in a clear and comprehensible language. New regulations in Florida increase the transparency of the terminology used in loss policies with the aim of clarifying the real level of coverage of hurricane damage.

Information about insurance providers

167. Information on insurance companies as such are also often deemed important for consumers. This type of information notably enable them to assess the soundness of insurer undertakings and whether insurers' particular management process, handling of claims or dispute fit their needs or preferences.

168. In this perspective, some OECD countries have also introduced regulations concerning information to be provided by insurers or their intermediaries on their situation, such as the name, legal situation (legal form, governing law), geographical, financial and economic situation of the insurer with which the policy is to be taken out. There is also generally an obligation to continue providing information, so that policyholders are informed of any material change. Information is also provided in the annual reports generally available on insurers' websites and under a range of additional requirements. In this respect, alike for information about insurance products, some countries (such as Israel) are increasingly encouraging insurance companies to provide such information on their company (notably through the annual report) in a way that may be easily understood by insured.

169. In South Korea, for example, the law on insurance activities requires insurers to inform potential consumers about their financial situation. In Japan, the insurance business law states that insurance companies must produce and circulate business reports that describe the state of their activities and assets. They are also urged to provide any additional information that could be useful to policyholders. These reports generally contain the statutory information and voluntary information provided by the companies on the basis of standards drawn up by insurance industry associations. In New Zealand, under the 1994 Insurance Act insurers are required to provide a full report on their financial position and on ratings given by government-approved agencies. The report also includes information about the insurer's financial obligations towards consumers.

170. Other types of information on the insurer such as whether it is registered with the ombudsman²⁰, if any, could be of relevance for consumers 'decision to subscribe or not a policy proposed by the concerned provider.

²⁰

It is a requirement in the UK.

ANNEX 4

REGULATION AND SELF-REGULATION OF INTERMEDIARIES' ROLES AND RESPONSIBILITIES IN SELECTED OECD COUNTRIES

Competence, continuous training and professionalism

171. In a majority of countries, intermediaries and distributors of insurance products alike are subject to obligations relating to competence, professionalism and continuous training. Under the Insurance Mediation Directive (Directive 2002/92/EC), which must be transposed into the domestic legislation of the 25 EU Member States by 2005, only qualified staff may have direct contact with potential consumers and customers. Before the Directive was transposed, in Italy, for example, national circulars containing similar obligations were issued. They also stated that distribution agreements concluded with operators in other sectors should ensure that practices complied with the obligations imposed by the ISVAP (and now the directive). In addition, such operators may sell only basic insurance policies. The Swedish law on financial advice and the Dutch law on financial services also state that financial advisors must have the necessary skills and experience.

Ethics and commercial neutrality

172. The provision of advice and information by diverse types of intermediaries directly linked or independent from insurers (i.e. brokers) raises the question of the confusion that may sometimes arise between objective information and product advertising or promotion. For that reason, the regulations in a number of countries state that the advice provided by insurance companies including through intermediaries must be easily distinguishable from promotion. In Belgium for instance, associations of insurance market players have elaborated a code of conduct – enforced on 1st January 2007- relative to advertisement and information on life insurance products (available on the websites of associations). This code of conduct sets the share of responsibilities between the insurer and the intermediary concerning the compliance of advertisement and promotion materials with the requirements of this code. It also details information and content of the information that should be made available on the concerned life insurance products through the advertisement depending on the characteristics of the promotion (possibility to subscribe immediately or not). In Italy, advertising for insurance products through "usual communication media" (press, radio and TV) and "new communication media" (internet, e-mail) must be easily distinguishable and clearly identifiable as such by potential consumers²¹. In France, misleading advertising is a criminal offence under the Consumer Code²² and the supervisory authority has a right to inspect documents issued by insurance undertakings. In this respect, some regulations typically require that insurers check the coherence of advertisement materials used by their intermediaries with distributed insurance policies. Similarly in Israel, if found that an insurance company or broker mislead the insured then the company can be fined, in extreme situations there can be criminal prosecution of the perpetrators

²¹ It is also stipulated that any advertisement (press, radio or TV) must include the following words: "Please read the information memo and terms and conditions before subscribing the policy".

²² Insurers are not allowed to give a misleading impression of their financial solidity by highlighting for example the existence of guarantee funds intended to cover the commitments assumed by defaulting insurers in certain branches (especially third-party vehicle insurance).

of the mis-selling. In Spain, any misleading or false publicity – defined as any publicity that misguides consumers or discredits competing businesses and goes against the rules of fair business practices- is considered illicit.

173. In addition, many OECD countries have introduced more or less strict regulations to ensure that intermediaries having commercial links and interests with insurance companies remain ethically neutral. New Zealand's regulations simply state that insurance distributors must act in good faith. Going further, under the Insurance Mediation Directive, intermediaries are required to state whether their advice is based on impartial analysis of the market and whether they are under an exclusive contractual obligation to one or more insurance undertakings (if that is the case, at the subscriber's request they must mention the name of the insurers concerned or, if not, those with which they are likely to work). More specifically, in the UK intermediaries should mention the share of their commission on each distributed product from each provider on a mandatory basis for commercial customers and, on request, for individual customers. In the US, the NAIC adopted in 2005 amendments to the Producer Licensing Model Act to address intermediaries/producers' disclosure of compensation. Already enacted in some states and introduced in several others, these amendments are designed to provide consumers with the necessary information to understand potential conflicts of interest an intermediary/producer may have because of the manner in which the insurance intermediary/producer is compensated.

Advice tailored to the policyholder's needs

174. Most regulations also provide that intermediaries or insurers directly selling insurance contracts are under an implicit obligation to offer their customers products that suit their exposure to risk and their financial situation and to inform them of the conditions for taking out a policy.

175. Under the terms of the Insurance Mediation Directive²³ they are first required to assess their customers' financial, familial situation, determine their exposure to risk (and explain it to them) and the level of risk they wish to and are able to assume. Second, intermediaries should provide potential customers with proposals of products best adapted to their needs and transmit them all relevant information so that they can properly assess the proposed insurance products. Under Articles 12.1 and 13.6 of the Directive, intermediaries must also provide interview reports in clear language in order to clarify whether consumers have indeed been advised in accordance with their needs. However, it should be mentioned that the Directive does not cover insurance providers directly selling insurance contracts. Going further, Belgium Insurance associations have recently elaborated informative notes – approved by the CBA- (for respectively life insurance products, saving through life insurance devices and non-life insurance products). These notes are providing specific and detailed guidance to intermediaries selling insurance products as regards provision of accurate information on products, advice to consumers according to their requirements and needs and on the drafting of note explaining the intermediary's advice to the concerned consumer.

176. In Japan, the law on sales of financial products states that providers of financial products in general (including insurance companies) must give consumers explanations about matters relating to financial products and provide information about their sales practices. In addition, under the insurance business law, the promotion of such activities must be conducted in an appropriate manner, including the provision of impartial information sufficient to protect subscribers. The new Swiss law on insurance contracts implies that distributors of insurance products should realise whether consumers have properly understood the proposed insurance product(s).

²³ The obligations mentioned in the directive do not apply to insurers directly, which may pose problems of competitiveness between intermediaries and insurers in certain jurisdictions.