

Introduction: Definition and Scope of the Report

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 relatives (*e.g.* birth, education, healthcare, income replacement, incapacity, invalidity, risk of dependency, third party liability, major risks, property damage, pensions, savings, annuities, and so on).

Households should be encouraged and provided with the possibilities to enhance their awareness and responsibility relative to the coverage of their overall risk-exposure as well as their understanding and knowledge of insurance products and markets. Yet 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 understand them and for better appraising possible needs in this respect.

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.

Taking this into account, for the sake of this study, objectives and definitions of financial education in the insurance sector will remain broad acknowledging that they should be adapted to specificities and policy choices of individual jurisdictions. To that effect, 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 in 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 received.²*

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 policyholders' 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 these notions inasmuch as they deal to some extent with the disclosure and provision of information on insurance. Yet, 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 proper understanding, capability and responsibility of consumers. Consumer protection focuses on regulatory and supervisory aspects notably aimed to ensure that insurance companies provide their clients with appropriate information in order to best protect policyholders' rights and to establish appropriate redress mechanisms. In this perspective, this report will not seek to deal with consumers' protection as such, but will possibly highlight some aspects of consumers' protection and prudential regulation in so far as they are related to encouraging and strengthening consumers' awareness, knowledge (through provision of relevant information) and capabilities as regards insurance issues.

To that effect, the provision of information within the insurance education framework should also be distinguished from the regulatory requirement for information disclosure by insurers and their intermediaries. The objective of the education process is not to list information to be legally provided to potential policyholders, but rather to cope with the asymmetry of knowledge and education. The purpose is thus to ensure the provision of reliable and adequate information and advice to consumers with a view to

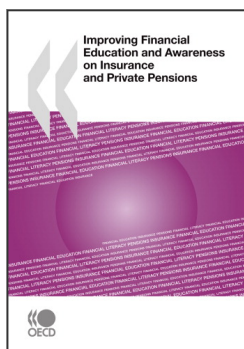
their specific needs and to make sure that potential customers/policyholders have properly understood the policy and products they intend to subscribe to.

Against this backdrop, the 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 hand to improve the level of awareness and education in risk and insurance and the possible ways forward.

This comparative analysis is also aimed to support the Recommendation on Good Practices for Enhanced Risk Awareness and Education on Insurance Issues endorsed by OECD member countries on March 28, 2008 and presented in the Appendix to this report.

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 European insurance and reinsurance federation CEA –, and of the 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 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 company Y.



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