



**OECD RECOMMENDATION ON GOOD PRACTICES
FOR ENHANCED RISK AWARENESS AND EDUCATION ON INSURANCE ISSUES**

RECOMMENDATION OF THE COUNCIL

These Good Practices were approved by OECD Governments on March 28, 2008.

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THE COUNCIL,

Having regard to Article 5(b) of the Convention on the Organisation for Economic Co-operation and Development of 14 December 1960;

Considering that in its “Recommendation on Principles and Good Practices for Financial Education and Awareness”, the Council invited the Committee on Financial Markets and the Insurance and Private Pensions Committee to identify further good practices, inter alia, in the insurance education field;

Considering that the “Good Practices for Enhanced Risk Awareness and Education on Insurance Issues” set out in the Annex to this Recommendation (hereinafter referred to as “the Good Practices”) complements the Principles and Good Practices for Financial Education and Awareness as a part of the overall project on financial education and that these Principles fully apply to the risk and insurance field;

Considering that the Good Practices have also been structured to ensure compatibility with the “Good Practices for Financial Education Relating to Private Pensions” [developed in parallel by the Working Party on Private Pensions and the Insurance and Private Pensions Committee;

Considering that as a result of the combination of the increasing exposure of households to a wide range of traditional and emerging risks of an individual and collective nature and the reduction of public, corporate and solidarity funding for social and economic risks – whether related to health, income or ageing-, households are directly responsible for deciding on the level of protection they wish to have as well as for the choice and management of adequate insurance products to cover these more severe risks;

Considering that insurance is an increasingly important source of protection for households and that this also enhances its impact on financial markets worldwide;

Considering that insurance particularly in terms of products and providers is one of the most complex, sophisticated and diverse fields in the financial sector;

Considering that not only do households consistently demonstrate low levels of financial literacy in general, but often lack sufficient awareness of the risks to which they are exposed, the ability to correctly assess their risk exposure, and good literacy, knowledge, and skills regarding insurance products and issues;

Considering that awareness and sufficient education and skills of households regarding risks and insurance issues is essential in order to facilitate their social and economic integration and their well-

being, that this may also help to limit social public spending and that this is equally important for the development of sound, efficient and competitive insurance markets;

Considering that government and relevant public and private institutions in Member Countries and non-Member economies may benefit from international guidance aimed at improving risk awareness and education on insurance issues;

Considering that the implementation of the Good Practices will have to take account, depending national specificities, of the differing needs for awareness and education in the risk and insurance fields initiatives already undertaken, the stakeholders involved in the awareness and education process and the insurance regulatory and supervisory framework in place;

On the proposal of the Insurance and Private Pensions Committee and the Committee on Financial Markets:

RECOMMENDS that Member Countries promote awareness and education in relation to risks and insurance issues and that, in this regard, governments and relevant public and private institutions take due account of and implement the Good Practices for Enhanced Risk Awareness and Education on Insurance Issues that are set out in the Annex to this Recommendation, of which they form an integral part.

INVITES Member Countries to disseminate these Good Practices among public and private sector institutions involved in financial awareness and education and in risk and insurance issues.

INVITES non-Members to take due account of this Recommendation and to disseminate these good practices among public and private sector institutions that are involved in financial education and awareness and in risk and insurance issues.

INSTRUCTS the Insurance and Private Pensions Committee and the Committee on Financial Markets to exchange information on progress and experiences with respect to the implementation of this Recommendation, review that information and report to the Council not later than three years following its adoption, and, as appropriate, thereafter.

ANNEX

GOOD PRACTICES FOR ENHANCED RISK AWARENESS AND EDUCATION ON INSURANCE ISSUES

I. Risk awareness and education on insurance issues¹: framework, definition and objectives

1. Taking into account national circumstances, risk awareness and education on insurance issues should be specifically encouraged, whether as part of the wider financial education effort or through distinct programmes. Such education programmes should be conducted in a coherent and transparent manner between main insurance stakeholders².

2. Within this context, education on insurance issues should help to promote two core objectives:

- first, to heighten awareness and responsibility vis-à-vis the potential risks to which individuals are exposed and the means by which insurance can best cover those risks;
- second, to enable citizens to develop the knowledge, understanding, capacities and confidence needed to adequately appraise and understand the policies they require, to know where to look for additional information, objective advice or help if they need it, to take informed decisions about how to protect themselves and their relatives and to adopt a proactive and responsible behaviour as regards their risk exposure and insurance coverage.

3. Education on insurance issues should be taken into account within the insurance regulatory and supervisory framework and considered as a tool to enhance social and economic growth and well-being through reliable, transparent, efficient and competitive insurance markets along with prudential regulation and consumer protection. Education on insurance issues does not substitute but rather complements prudential regulation and policyholder protection. These are especially needed in the insurance sector to protect consumers' rights and to promote market efficiency and symmetrical information.

4. In this respect, specific measures to be considered within a jurisdiction concerning education on insurance issues should first take account of the regulatory framework, in particular as regards provision of quality information before, during and after the conclusion of contracts (disclosure rules), legal requirements or codes of conducts applicable to intermediaries or selling practices, as well as compulsory or voluntary mediation mechanisms in place.

II. Main stakeholders' responsibilities and roles

A. Public Action

5. As a rule, public promotion of education on insurance issues, should be considered taking into account the jurisdictions' circumstances and policy choices, especially when lack of risk awareness and of insurance capabilities may involve particularly damaging consequences for citizens in the long run, and where no effective alternative (private) education initiatives are available or under consideration.

6. Governments' involvement in this education process should be mainly aimed at enhancing awareness of major risks and the need for adequate protection, including through various insurance

instruments, and at enabling individuals to attain a sufficient level of knowledge, understanding and skills in order to adopt a responsible stance and make sensible choices as regards insurance issues.

7. In this respect, Governments should ensure that citizens are appropriately educated – possibly as part of school curricula- to be knowledgeable, capable and responsible in risk and insurance issues, as early as possible and on an on-going basis at key points through an individual’s life (changes in family, occupational and property situation).

8. In this connection, a series of actions should be encouraged, including:

1. Promoting a “culture” of responsibility for personal protection, in particular by educating people about notions relating to risk, risk mitigation and compensation including possibilities offered by insurance tools and basic insurance mechanisms and products:
 - School curricula, in particular at the secondary level, should encompass more specific notions relating to risk and insurance (taught separately or within finance or economics classes), including, *inter alia*, basic insurance mechanisms and products and the major dynamics and components of the insurance market;
 - Higher-level studies and courses at universities and/or specialised institutes in the insurance field should be promoted and publicised through different communication approaches including competitions and special events;
 - Specialised teaching, training and prevention/information centres on risks and insurance issues should be promoted and/or developed;
 - In this respect, educators should be appropriately qualified and trained to feel confident when instructing young people about risk and insurance issues.
2. Promoting and developing prevention and information programmes and campaigns regarding seriously damaging risks, vulnerable populations, innovative or complex insurance products and products implying a greater transfer of risks to individuals- such as unit-linked-, possible underinsurance, overlapping and/or over insurance, key contract clauses and conditions as well as applicable rights and obligations of consumers as regards insurance products and insurance market players.

This promotion could involve the development of specific websites or a sub-site of the supervisory authority dedicated to consumers’ information.

9. Public action should also consider the development, at the national level, of appropriate specialised structures – possibly within the framework of existing authorities- which would be in charge of promoting and coordinating risk awareness and education on insurance issues.

B. Role of insurance market players³

10. As a rule, the role and responsibilities of all insurance market players in the financial education process should be clearly defined and promoted and should become part of their good governance⁴ with respect to their policyholders and/or customers. The accountability of insurance market players, and in particular of independent intermediaries, who represent their clients in this respect, should encompass both provision of accurate and quality information that can be distinguished from advertising and promotion, and objective and relevant advice commensurate with the risk exposure and needs of policyholders/customers.

11. Good selling practices should include the development of mechanisms for the assessment by sales staff or agents of clients' level of understanding, who should be adequately qualified and trained in this respect. This should particularly apply to complex insurance products, insurance products involving long-term commitments or commitments which represent a substantial proportion of current and future income or products which involve an important transfer of risks to policyholders.

12. Insurance market players (and/or their national associations) should be encouraged to create and develop internet sites to make general information on products and on companies freely available for consultation.

13. Insurance market players should be encouraged to engage in further initiatives to increase individuals' awareness of risks, of risk mitigation measures and of available coverage mechanisms, including insurance tools, as well as to provide unbiased information on insurance related issues. These activities should be clearly distinguished from marketing, promotion and advertising.

C. Role of other social and business partners

14. Depending on the country context, associations of insurance market players, consumers' associations, employers, trade unions, other NGOs and institutes specialised in insurance issues, should also contribute to financial education programmes.

15. For instance, these social and business partners should be encouraged to conduct surveys on the needs of consumers as regards risk awareness and education on insurance issues and on how consumers prefer to receive such information. They should endeavour to provide information, advice and training on insurance issues or to inform consumers or their employees (in the case of corporation) about where they can receive such help. They should also be encouraged to sponsor materials for public education programmes, provided that the information is sufficiently neutral and distributed under public oversight. Employers and/or trade unions in particular should play a role in making sure that employees know what types of occupational insurance coverage are available to and most suitable for them.

III. Programmes to raise risk awareness and strengthen education on insurance issues

A. Assessing needs and existing programmes

16. According to national circumstances, financial education initiatives in the insurance sector should make ongoing efforts, *inter alia*, to develop methodologies and criteria to assess the needs of the population as regards literacy, capabilities and responsibility on risk and insurance issues as well as the impact and effectiveness of existing programmes in this respect.

17. According to the needs of the jurisdiction, these processes should *inter alia* involve:

- Evaluation on a more systematic basis of the risks that could affect individuals and their relatives, along with analysis of risks and populations that are particularly under-insured or potentially over-insured;
- Evaluation of the population's degree of literacy and more or less active behaviour as regards their risk exposure, protective or risk mitigation actions, and insurance issues;
- Identification and assessment of the education needs of the population with respect to specific groups, risks, products and players as well as the reasons for any shortcomings;

- Systematic evaluation of measures and programmes intended to enhance education on risk and insurance issues, based on predefined criteria and including a cost-benefit assessment.

B. Mechanisms and tools

18. Programmes aimed at improving the level of awareness and education on risk and insurance should consider making use of a large variety of means so as to ensure that a wide audience - including targeted and vulnerable groups- may be appropriately and effectively reached.

19. This should imply, according to national circumstances, encouraging:

- Broad media coverage (*i.e.* radio, television, print journalism, billboard advertising and internet), and the organisation of events to raise awareness on insurance issues and on the importance of financial education in this area. In this perspective, risk awareness and knowledge of insurance issues of the main players in the information and instruction channels (*i.e.* the media, teachers, educators and parents) should be reinforced;
- The development of high-profile sources of reliable, objective and free information and/or specific bodies or centres through which insurance stakeholders could - possibly - co-ordinate to offer consumers information, education, assistance and advice on insurance issues;
- The development of various tools - internet sites, but also guides, brochures, leaflets and other available traditional or modern communication methods - enabling consumers to consult reliable sources for comparisons of the products offered by various insurance market players and to assess their level of protection against potential risks - e.g. through calculators and quizzes -, as well as their own knowledge of their insurance requirements and of how their policies operate.

20. For the most severe risks, without limiting the freedom to contract, under and/or inappropriately-covered risks, default mechanisms, which take into account potential temporary or long-term deficiencies in financial education or the passive behaviour of consumers, should be considered and properly regulated.

21. Similarly, the insurance and financial sectors should also be encouraged to develop innovative insurance products (e.g. microinsurance) and tailored distribution channels that can best meet the need for protection of consumers particularly of the most vulnerable segments of the population.

ANNOTATIONS

- ¹ For the purposes of this document, “insurance issues” will be construed in a broad fashion to cover: first, general issues related to the risk exposure of individuals and to the resulting need for protection; second, all products intended to cover such potential risks for individuals (excluding banking, investment and savings products provided by pension funds or other institutions specialising in the provision of retirement-oriented savings products), irrespective of products’ distributors; and third, all policies (including some life insurance policies that may encompass pension aspects) proposed and distributed by “traditional” insurance-market providers (insurance undertakings – companies, mutual societies, provident associations – and their intermediaries – agents and brokers) directly to individuals or to companies on their employees’ behalf.
- ² Main “insurance stakeholders” refers to responsible public bodies and authorities, main insurance market players, as well as associations of insurers, of intermediaries and of consumers, other NGOS, and relevant institutes or foundations, corporations as well as consumers, policyholders, insured, their beneficiaries and third parties.
- ³ The term “insurance market players” broadly covers underwriters and sellers of insurance products including: traditional insurance underwriters (insurance companies, mutuals and provident societies) traditional insurance intermediaries (brokers and agents) as well as non-conventional distributors such as banks as well as other kinds of sellers not in the financial sector (*e.g.* car dealers, supermarkets, travel agencies, etc). The term also encompasses different types of distribution channels including the most modern (*i.e.* internet, cell phone, etc).
- ⁴ See also in this respect, the OECD Recommendation on Guidelines for Insurer’s Governance, available on the OECD website at www.oecd.org.