



Report on
Insurance Literacy
Tracking Survey in
Hong Kong 2021

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Executive summary

Insurance literacy is a combination of knowledge and skills, attitude and behaviours necessary to make sound decisions, thus contributing to better insurance inclusion. In an inclusive market, all citizens — including the unserved and underserved — should have access to and use of appropriate and affordable insurance products. The more inclusive the insurance market is, the higher the social value it can create.

In order to assess and track trends in insurance literacy in Hong Kong, and to identify gaps that can shape the Insurance Authority's ("IA") policy development and public education, the IA has conducted an Insurance Literacy Tracking Survey ("ILTS") with a focus on personal insurance products. The design of both the survey questionnaire and the scoring mechanism for the ILTS was based mainly on the Organisation for Economic Co-operation and Development's ("OECD") framework for measuring financial literacy. Survey questions were also adapted to the context of Hong Kong, with the characteristics of the Hong Kong insurance market being taken into consideration.

The survey findings showed that respondents were rated as 'moderately literate' in overall insurance literacy; 'moderately literate' in knowledge, skills and attitude; but 'less literate' in behaviour. There was a general understanding about policyholders' rights, insurance principles and product features, but limited knowledge of risk exposure and protection needs. The perceived value of insurance was quite high and the level of trust in the insurance sector was moderate, but insurance purchase was adversely affected by choice overload. Identified behavioural issues include: over-reliance on the advice and experience of family or friends; procrastination in dealing with insurance; limited policy comparison; focus on promotions; and inadequate reading of terms and conditions. A positive correlation between insurance literacy and income and education levels was also found.

Non-policyholders had significantly lower levels of insurance literacy than policyholders. Some common patterns, which may contribute to non-policyholders under-engaging with insurance, were observed. They include: lower perceived value of insurance; lack of trust in the insurance sector; lack of insurance knowledge and confidence in insurance knowledge; and lack of awareness of lifetime risk profiles. Apart from overall literacy and findings on non-policyholders, product-specific findings were also explored.

The ILTS posed questions for the general public, the insurance sector and regulator to examine improving the insurance literacy of the Hong Kong population. All stakeholders are recommended to work together to develop solutions, close the knowledge gap and address attitude and behavioural biases.

1. INTRODUCTION

Insurance is a risk management and mitigation mechanism safeguarding people against financial losses. It creates social value by providing a sense of security and peace of mind to individuals, relieving the burden on governments of offering social security benefits, and supporting business and economic growth by fostering innovation and more efficient capital allocation.¹ The social value of insurance depends on the level of insurance inclusion. By this, we mean the unserved and underserved, including vulnerable and low-income populations, should have access to and use of appropriate and affordable insurance products.² The more inclusive the insurance market is, the higher the social value it can create.

This insurance inclusion is affected by insurance literacy, among other factors. The Organisation for Economic Co-operation and Development (“OECD”) found that there is a correlation between financial inclusion and financial literacy (Atkinson and Messy, 2013). Inadequate knowledge and awareness of the financial products available, or lack of trust in them, may prevent individuals from accessing and making full use of those products.

In this report, insurance literacy is defined as a combination of knowledge and skills, attitude and behaviour necessary to make sound decisions related to insurance. A high level of knowledge and awareness in relation to insurance and risk exposure facilitates people’s choice of appropriate insurance solutions. Trust in insurance drives people to take out insurance. On the other hand, individuals without sufficient knowledge and trust in insurance may hesitate to take out any insurance. As a result, they are not able to capture the benefits of insurance. Further analysis of the difference in insurance literacy between non-policyholders and policyholders can help us identify barriers to insurance take-up and formulate policy measures to foster insurance inclusion.

The insurance market in Hong Kong is mature, as reflected by high insurance penetration and density.³ But this does not necessarily imply that it is highly inclusive, as policyholders may not obtain appropriate or adequate protection. In life insurance, the “mortality protection gap” — or the shortfall in financial resources needed to sustain a decent living standard for surviving family

¹ See Geneva Association (2012) for details.

² See Center for Financial Inclusion and Institute of International Finance (2018) for details.

³ Insurance penetration refers to the ratio of insurance premiums to GDP of an economy, while insurance density means the ratio of insurance premiums to total population of an economy. In 2020, the insurance penetration and density in Hong Kong were 20.8% and USD9,746 respectively, ranking first and second respectively in the world, according to Swiss Re Institute (Aizpún et al., 2021).

members in the event of a breadwinner's premature death — was HKD1.9 million per working adult in Hong Kong in 2019.⁴ This sizeable gap indicates that policyholders are not purchasing the appropriate life insurance products to satisfy their protection needs. Turning to non-life insurance, almost 80% of respondents to one survey did not purchase home insurance. Around 60% of respondents believed that the cost of alternative accommodation and temporary storage of furniture would be covered by fire insurance.⁵ These low penetration rates and misconceptions suggest that Hong Kong people do not have adequate and appropriate protection against property and casualty risks.

There are also numerous disputes between policyholders and insurers or insurance intermediaries in Hong Kong. The Insurance Complaints Bureau ("ICB") received 583 complaint cases in 2020. Among the 349 complaints that were closed, the application of policy terms, excluded items and non-disclosure accounted for 86% of complaints.⁶ This suggests that better insurance knowledge and awareness can help the Hong Kong public to better understand the design and features of insurance products, and result in their making better decisions.

We also gathered some comments on insurance literacy in Hong Kong from the insurance market, including practitioners. These comments are summarised as follows:

1. The level of insurance literacy is quite low. Reasons include:
 - Insurance products and contracts are too complicated for customers to understand.
 - There is a lack of trustworthy channels for customers to acquire accurate and detailed information about insurance.
 - The perceived value of life insurance declines when policyholders have paid premiums for a long period but have not filed claims on non-savings plans, or as insurance costs increase with age.
 - Customers are impatient to read the terms and conditions of insurance contracts.
 - Policyholders seldom review their insurance needs and coverage regularly, as they gain a sense of security after purchasing insurance.
 - Customers have a general concept of the broad coverage of insurance products, but their knowledge of the functions and exclusions of products is limited.

⁴ Mortality protection gap is estimated by calculating the difference between protection needs and resources available. Protection needs consist of current household debt and future medical cost, education cost and household expenditure, while resources available are composed of life insurance coverage, savings and investments, and assets related to retirement schemes. For details, please refer to Insurance Authority (2021b).

⁵ AXA conducted a survey entitled "AXA Home Protection Awareness Study" in 2017 to assess Hong Kong residents' understanding of home insurance and its coverage. Over 1,000 respondents aged 18 or above were surveyed. For details, please refer to AXA (2017).

⁶ See Insurance Complaints Bureau (2021) for details.

2. Some people do not purchase insurance. They do not consider insurance to be a basic need and hence do not budget for it. Also, people who are employed may have a false sense of security due to having group insurance provided by employers, as they may not enjoy insurance benefits once they leave employment.

These comments prompted us to study the following questions:

- How to measure the level of insurance literacy in Hong Kong? How to analyse the current state of insurance literacy in a systematic way? What are strengths and weaknesses of insurance literacy among Hong Kong people?
- How does insurance literacy differ between policyholders and non-policyholders? Are there any common patterns of literacy among non-policyholders?
- To what extent do customers understand the design and functions of different insurance products? Are they able to choose appropriate insurance products based on their risk exposure?

Studying the questions above can help us identify literacy gaps and explore policy measures to narrow these gaps. Improved literacy will facilitate the general public to obtain appropriate and adequate protection, which maximises the social value of insurance.

To evaluate insurance literacy in Hong Kong, we needed a standardised tool. However, there is little research on measuring insurance literacy in a systematic way, and none focuses on Hong Kong. In order to assess insurance literacy in Hong Kong, to track trends in insurance literacy, and to identify gaps that can shape policy development and public education, the Insurance Authority (“IA”) conducted an Insurance Literacy Tracking Survey (“ILTS”).⁷ The ILTS focused on personal insurance products, excluding commercial lines targeting corporate policyholders. Ultimately, the IA aimed to achieve the following via the ILTS:

- (i) Develop a measurement framework to evaluate insurance literacy in Hong Kong and track trends in insurance literacy on a regular basis;
- (ii) Improve the public’s understanding of their risk profiles and their insurance knowledge in terms of functions, design and features of insurance products;

⁷ The IA conducted the ILTS in collaboration with PricewaterhouseCoopers Limited (“PwC”), which provided advice in the capacity of an external consultant. PwC accepts no liability or responsibility to any third party who gains access to this report. Mercado Solutions Associates Limited (“MSA”) was engaged to conduct the survey fieldwork.

- (iii) Enhance consumers' knowledge about their rights and responsibilities, and thus help them to make informed decisions about insurance;
- (iv) Strengthen public confidence in the insurance market and insurance practitioners; and
- (v) Promote insurance inclusion and the sustainable development of the insurance market in Hong Kong.

Apart from the ILTS, the IA previously launched a public education campaign on lifetime risk profiling to give a comprehensive picture of the different risk exposures individuals face during their lifetime. To support the campaign, the IA publishes a thematic report "Lifetime Risk Profiling and Insurance Literacy"⁸ along with this report, drawing on insights from the ILTS.

The rest of this report is structured as follows: Section 2 provides a literature review; Section 3 introduces the methodological framework of the ILTS; Section 4 discusses the analysis and implications of the survey findings; and Section 5 offers conclusions.

⁸ https://www.ia.org.hk/en/infocenter/files/Insurance_Literacy_Tracking_Survey_Thematic_Report_Eng.pdf

2. LITERATURE REVIEW

This section reviews the body of research covering concepts of financial and insurance literacy, and proposes a definition of insurance literacy for the operation of the ILTS. To develop a framework for assessing and tracking insurance literacy in Hong Kong, we reviewed research on the survey and scoring mechanisms for assessing financial and insurance literacy. As issues specific to Hong Kong would be taken into account when designing this framework, phenomena prevalent in the Hong Kong insurance sector were also to be considered.

2.1 Concepts of financial and insurance literacy

With financial literacy growing in importance as a way for individuals to improve their financial well-being⁹, governments around the world have stepped up efforts to understand levels of financial literacy, while exploring policy measures to enhance it among their populations. To this end, surveys have been undertaken to measure levels of financial literacy by adopting different definitions. Measurements of financial literacy vary substantially across surveys, while a lack of common definitions poses a challenge when making international comparisons.

In order to measure and track levels of financial literacy across jurisdictions, the OECD International Network on Financial Education (“OECD/INFE”) developed a common questionnaire based on previous surveys (Atkinson and Messy, 2012). This common questionnaire adopted the following definition of financial literacy:



Financial literacy is a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and, ultimately, achieve individual financial well-being.¹⁰



This definition has been widely adopted, as reflected by the participation of 26 economies (including Germany, Italy, Malaysia and Hong Kong) in the OECD/INFE’s survey in 2020 (OECD, 2020). By contrast, there is a lack of commonly accepted definitions of insurance literacy. Tennyson (2011b) noted that one of the limitations in conducting research on insurance literacy is the absence of generally accepted criteria to identify the essential elements of insurance that a literate consumer should know. Academics have proposed their definitions and different focuses on aspects of insurance literacy. (Table 1)

⁹ Financial well-being refers to a state where a person can fully meet current and ongoing financial obligations, can feel secure in their financial future, and is able to make choices that allow enjoyment of life.

¹⁰ According to the OECD/INFE, a financially literate person should have basic knowledge of key financial concepts and the ability to apply numeracy skills in financial situations. Attitude can be considered to be preferences towards spending and saving. Behaviour refers to the actions affecting financial well-being, such as financial planning and choosing financial products.

Table 1: Definitions of Insurance Literacy in Selected Literatures

Author	Definition
Allodi et al. (2020)	<p>Knowledge, understanding, skills and attitude:</p> <ul style="list-style-type: none"> • Knowledge — understand and make use of insurance concepts and be aware of and informed about the insurance products under consideration • Understanding — have a reasonable understanding of the risks covered by the insurance policy under consideration, to make sense of insurance products in their different forms, use and functions • Skills and attitude — apply knowledge and understanding to assess insurance options and make decisions consistent with the perceived risks and for fulfilling one's own needs
Tennyson (2011a)	<p>Knowledge, confidence and capability in insurance decision making:</p> <ul style="list-style-type: none"> • Knowledge — understanding of insurance principles and insurance product features • Confidence — an indicator of the likelihood of applying knowledge effectively • Capability — the amount of relevant and accurate information that consumers can utilise in insurance decision making
Weedige and Ouyang (2019)	<p>Knowledge and skills necessary to make sound insurance decisions:</p> <ul style="list-style-type: none"> • Knowledge — understanding of (i) potential risk exposure; (ii) risk mitigation strategies; (iii) insurance concept, principles and benefits; (iv) features of insurance products; (v) rights and duties of insured; and (vi) information sources • Skills — the ability to confidently apply knowledge

The existing research found that, apart from knowledge and skills, emotional, cognitive and behavioural factors play an important role in shaping insurance decision making. One of the cognitive biases is a tendency for people to take out insurance against high-frequency risks with low financial impacts, rather than low-frequency risks with large financial impacts (Allodi et al., 2020; Weedige et al., 2019). A well-designed instrument for measuring insurance literacy should capture a combination of knowledge, skills, attitude and behaviour needed to make sound insurance decisions (Weedige and Ouyang, 2019). Thus, our resulting definition of insurance literacy is as follows:



Insurance literacy is a combination of knowledge and skills, attitude and behaviour necessary to make sound decisions related to insurance.



This definition is largely in line with the OECD/INFE's broad definition of financial literacy. The three dimensions of insurance literacy (knowledge and skills, attitude, and behaviour) are discussed in the following subsections.

2.1.1 Knowledge and skills

“Knowledge” refers to the understanding of insurance principles, terminology, product features, and rights and responsibilities of policyholders, while “skills” mean the ability to apply knowledge in making insurance decisions.

(i) Knowledge of insurance principles, terminology and product features

This is a fundamental part of “knowledge”, as reflected in research on insurance literacy (see Table 1 on P.8). The survey questionnaires designed by academics provide examples of the specific items. For instance, the National Association of Insurance Commissioners (2010) used a quiz, which focused primarily on insurance terminology (such as umbrella policy¹¹) and product features (such as coverage of short-term disability insurance), to assess how capable American consumers were in choosing and using insurance policies. Weedige et al. (2019) developed a quiz to evaluate consumers' insurance literacy in Sri Lanka. The quiz included questions on insurance principles (such as the appropriateness of insurance in terms of frequency and intensity of risks) and product features (such as the absence of maturity value in medical and home insurance).

¹¹ An umbrella policy means additional coverage over and above primary insurance policy.

(ii) Understanding of policyholders' rights and responsibilities

Insurance is a financial product with different conditions by which policyholders have to fulfill obligatory requirements (principle of utmost good faith) such as accurate and truthful disclosure of material facts (Weedige et al., 2019). Failure to fulfill policyholders' duties can cause insurance claim refusal. At the same time, policyholders are entitled to enjoy rights such as a cooling-off period (during which they can cancel their policies and obtain a refund of premiums). Therefore, making informed insurance decisions requires consumers to understand their rights and responsibilities under insurance contracts (Tennyson, 2011a).

(iii) Awareness of risk exposure and protection needs

Literate consumers should have the ability to choose insurance products that meet their protection needs based on their perceived risk exposure (Allodi et al., 2020). They are also more likely to purchase appropriate levels of personal insurance coverage (Driver et al., 2018). However, research found that consumers often do not know what type of life insurance products and how much insurance they need. They may, for example, purchase policies relatively early in life but then fail to adjust their levels of protection as their protection needs change (Kirova and Steinmann, 2013).

2.1.2 Attitude

"Attitude" is a person's degree of favorability towards an object (Rocha and Botelho, 2018; Schwarz, 2008). Attitude influences willingness, which in turn affects behaviour. A positive attitude towards insurance leads to greater willingness to pay for it (Rocha and Botelho, 2018). Attitude towards insurance depends on trust in insurance and the perceived value of insurance (Tam et al., 2021; Weedige et al., 2019). It is also affected by consumers' confidence in their decision making.

(i) Trust in insurance

This is consumers' belief that salespersons, insurers and insurance policies will fulfill their contractual obligations (Weedige et al., 2019). Insurance contracts apply the principle of utmost good faith, so that contracting parties are obliged to disclose all material information. Insurers and consumers would not enter into contracts without trust in each other. Driver et al. (2018) found that lack of trust in insurance was prevalent in Australia and it undermined the public's willingness to take out personal insurance. Also, a lack of knowledge can lead to lack of trust, especially when the public receives other information or media content that reinforces their perceptions.

(ii) Perceived value of insurance

This is consumers' belief about the extent to which they will be better off by taking out personal insurance (Weedige et al., 2019). The perceived value of insurance includes compensation of losses, promotion of risk management and efficient use of an individual's resources. The more perceived value there is, the more likely consumers will purchase insurance. A U.S. study found that perceived value was one of the determinants of having private health insurance (Cantiello et al., 2015). Similarly, Driver et al. (2018) found that the public in Australia generally did not see the value of personal insurance and therefore did not purchase it. The reasons cited for not needing personal insurance included belief in government support, ability of family and friends to assist and a perceived quick recovery from serious illness.

(iii) Consumers' confidence in decision making

Insurance literacy encompasses the ability to use insurance knowledge (Weedige and Ouyang, 2019). One indicator of the ability to apply knowledge is confidence in decision making (Tennyson, 2011a). Lack of confidence in insurance decision making is quite common among consumers. A survey found that American consumers did not feel confident in making insurance decisions (National Association of Insurance Commissioners, 2010). Insurance policy ownership and having taken a personal finance course are determinants of confidence in decision making (Tennyson, 2011a). Moreover, choice overload affects confidence in insurance decision making. A U.S. research paper found that the complexity of health insurance options reduced confidence among the elderly in their insurance decision making. They preferred delegating insurance decisions to others, and they were less confident that the insurance purchased met their needs (Kan et al., 2015). This indicates a lack of confidence in decision making may lead to negative attitudes towards insurance.

2.1.3 Behaviour

Financial behaviour refers to any behaviour by an individual which will have a significant impact on his/her financial well-being (Atkinson and Messy, 2012). It can be classified into pre- and post-purchase behaviour in the context of insurance.

(i) Pre-purchase behaviour

Comparison of insurance policies

The OECD regards the ability to choose appropriate products as one of the indicators of financial literacy (Kempson, 2009). A survey conducted in Japan found that respondents with higher financial literacy were more likely to make comparisons between financial products (including life insurance) before purchasing (Central Council for Financial Services Information, 2019). A survey conducted in Australia also identified "choosing financial products" as one of the five behavioural indicators of an individual's financial literacy (Social Research Centre, 2015). These studies serve as a good reference point for determining whether consumers' shopping around before taking out insurance is important in assessing their insurance literacy.

Channels of information

Previous research found a positive correlation between insurance literacy and preference for formal information sources, such as professional advice. For example, a survey in Australia found that consumers who had received financial advice on life insurance demonstrated a higher level of insurance literacy, as they had a stronger knowledge of coverage and the tax treatment of insurance policies (CoreData, 2014). Conversely, another survey in the U.S. found that respondents who preferred informal information sources, such as family or friends, scored significantly lower in an insurance knowledge quiz than other respondents (Tennyson, 2011a).

Procrastination in taking out insurance

Procrastination is a hurdle to purchasing insurance. This stems from the purchasing process not being fully understood by consumers, the involvement of difficult tasks and the need for substantial knowledge (Kirova and Steinmann, 2013). Other reasons involve having competing financial priorities, resulting in postponement of the insurance purchase. A U.S. survey found that having other financial priorities was one of the main reasons for not buying life insurance (Wood et al., 2021).

Willingness to invest time on insurance

Lengthy and complicated underwriting processes, including medical checks and paperwork, create transaction costs that may exceed the perceived value of insurance. In this situation, consumers may delay taking out insurance or even rationalise their decision not to purchase a policy (Driver et al., 2018; Kirova and Steinmann, 2013).

(ii) Post-purchase behaviour

Status quo bias

This is one of the biases affecting behaviour during the insurance contract period. Consumers tend to stick with their present choice for fear of potential losses if they switch to an alternative (Suter et al., 2017). A study in the U.K. found that consumers of home insurance underestimated the benefits of shopping around. Renewal notices were not sufficient to overcome status quo bias (Adams et al., 2015). While automatic renewal can ensure policyholders a continuity of cover, it may obscure their incentive to shop around for the best deal when they are affected by status quo bias.

Fulfilling policyholder's responsibilities

A survey in Europe found that consumers were not good at identifying their post-sale responsibilities (Suter et al., 2017). In motor insurance, they were not aware that insured drivers need to disclose any vehicle modifications or any new driver being added to the insurance. In home insurance, they were not aware that they need to inform their insurers immediately if they rent out their properties or if the property's structure is altered. Policyholders often only find out about their obligations when they file claims. Therefore, a lack of awareness of obligations can lead to dissatisfaction with regards to claims handling.

Procrastination in dealing with insurance

Policyholders often put off insurance-related issues such as filing claims. In some cases, they delay filing claims for fear of being penalised by insurers in terms of, for example, higher premiums. They may also give the incident a lower priority if they do not consider it to be significant. However, procrastination in reporting claims can lead to them being rejected (Socius Insurance, 2021).

2.2 Survey and scoring mechanisms for assessing financial and insurance literacy

2.2.1 OECD/INFE survey

The OECD/INFE has developed a survey to assess and track the financial literacy of populations in different jurisdictions (Atkinson and Messy, 2012). The questionnaire includes core questions on financial literacy and other questions on the socio-demographic details of survey participants, such as age, gender, education level, work status and income.

The 21 core questions include 8 questions on knowledge, 3 questions on attitude and 10 questions on behaviour. A score is assigned to each core question. The scoring criteria are as follows:

- Knowledge — The score is computed as the number of correct responses to 7 knowledge questions¹², ranging from 0 to 7.
- Attitude — A 5-point scale is applied to attitude questions, with 1 point representing complete agreement and 5 points complete disagreement. The score is computed as the sum of the values for the 3 questions, which is then divided by 3. It ranges from 1 to 5.
- Behaviour — The score is computed as the total number of “financially savvy” behaviours. 1 or 2 point(s) is/are awarded to respondents who are financially savvy. The score ranges from 0 to 9.

The financial literacy score is obtained by summing the scores for knowledge, attitude and behaviour. It ranges from 1 to 21, with a weighting ratio of knowledge, attitude and behaviour of 7:5:9. The core questions and the corresponding scoring criterion can be found at Annex 1 on PP.38-39. According to the pilot study between 2010 and 2011, knowledge was considered to be high level if the score was 6 or more (out of 8), above 3 (out of 5) for attitude, and 6 or more (out of 9) for behaviour.

The questionnaire can be used in face-to-face or telephone interviews. Random or quota sampling¹³ can be applied.

¹² The question on division: “Imagine that five brothers are given a gift of \$1,000. If the brothers have to share the money equally, how much does each one get?” has not been considered to be a scoring question of financial knowledge since 2015, as it is relatively easy and is not a good indicator of financial literacy in the majority of countries.

¹³ In quota sampling, a population is segmented into sub-groups based on features such as age and gender, then a certain number of sample units is selected for each sub-group.

2.2.2 FPA/Zurich survey

The Financial Planning Association of Australia (“FPA”) and Zurich Financial Services (“Zurich”) conducted an online survey on insurance literacy in Australia in 2014 (CoreData, 2014). The survey aimed to assess consumers’ understanding of insurance products (such as definitions of life, total and permanent disability (“TPD”) and income protection, coverage of life insurance and waiting periods), examine the relationship between insurance literacy and receiving financial advice, and develop an insurance literacy score. The total score is calculated by assigning scores to knowledge and behavioural questions and taking a weighted average of those scores. The insurance literacy score runs 1 to 10, where 7-10 means excellent literacy, 5-6 fair and 1-4 poor. Examples of questions include:

- Do you know the approximate value that you are insured for through your life/TPD/income protection cover?
- How confident are you that you know the monthly premium/cost of your life/TPD/income protection cover?
- What is your understanding of the tax deductibility of term life insurance? (a multiple-choice question; respondents are given four answers to choose from)
- Which of the following do you believe is an effective substitute for term life, TPD or income protection insurance? (a multiple-choice question; options include private health insurance, personal savings and unemployment benefits)

2.2.3 Other surveys

The National Association of Insurance Commissioners (2010) and Tennyson (2011a) have designed 10-question questionnaires on insurance knowledge, including insurance principles, terminology and product features. One point is allocated for each correct response. Examples of questions include:

- The main purpose of insurance is to reduce the financial risk faced by the consumer. (true/false question)
- A larger deductible on an insurance policy is always a bad deal for the consumer because the insurer pays less of the consumers’ losses. (true/false question)
- If personal items get stolen from your car, what kind of insurance covers the losses?
- What type of financial coverage does short-term disability insurance provide?

2.3 Hong Kong insurance sector

As mentioned earlier, apart from assessing and tracking trends in insurance literacy in Hong Kong, the ILTS should also serve the purpose of giving insights to shape the IA's policy development and public education in the future. As such, the following topics deserve further attention and discussion.

2.3.1 Market conduct

Regarding insurance market conduct, the IA has received complaints about how licensed individual insurance agents handle premiums which clients pay to them in order for agents to pass the premiums to insurers. Adverse consequences may arise from paying premiums via insurance agents rather than to insurers directly. For example, agents may delay paying premiums to insurers, leading to confusion and uncertainty when policyholders contact insurers about their policy status. In extreme cases, agents may misappropriate premiums and disappear with them (Insurance Authority, 2020).

The ICB has received numerous claim-related complaints. In 2020, the application of policy terms, excluded items and non-disclosure accounted for 86% of complaints which were closed (Insurance Complaints Bureau, 2021). This suggests that there is considerable room for improving insurance knowledge among the general public in Hong Kong, in addition to comprehending insurance principles, product design and features.

2.3.2 Consumers' decision making

Some insurers in Hong Kong offer promotions, including complimentary movie tickets and premium discounts during sales, which may affect consumers' decisions on buying insurance. Previous studies found that promotions such as retail vouchers and cashbacks provided by insurers undermined consumers' ability to select the best insurance deal and correctly assess policy premiums (Spohn et al., 2021).

Some insurance intermediaries prefer selling insurance policies to their family members and friends first, due to the pre-existing relationship of trust with these potential consumers. In this situation, the purchase decision may be made based on a sense of family obligation rather than meeting protection needs. Furthermore, potential consumers may not pay careful attention to terms and conditions ("T&Cs") of policies, and they may not seek professional advice (Insurance Authority, 2021a).

2.3.3 Specific insurance products

In 2020, in terms of premium size, term life insurance accounted for only 1.2% of total individual life in-force business in Hong Kong. This indicates that life insurance products with investment or savings components, such as whole life insurance and endowment, appear to be more popular than term life insurance — a pure protection-typed product. It is thus worth exploring the perceived value of life insurance among Hong Kong consumers.

At the point of sale of a participating life policy, potential policyholders are provided with some information about projected benefits in the document named “benefit illustrations”. Understanding the contents of benefit illustrations definitely helps policyholders’ decisions. Hence, it is essential to assess consumers’ knowledge of this aspect.

Some issues related to property and casualty insurance have been identified. In home and fire insurance, a survey by an insurer found that the majority of respondents in Hong Kong did not own any home insurance and had misconceptions about the coverage of fire insurance (AXA, 2017). In motor insurance, around 55% of local private cars are covered by third-party risks policies, which are mandatory by law, while the remaining 45% are covered by comprehensive policies. Fewer drivers taking up comprehensive coverage may imply that local drivers take out motor insurance purely based on legal requirement and are less concerned about the need to protect against damage to their vehicles.

3. METHODOLOGICAL FRAMEWORK OF THE ILTS

This section introduces the methodological framework developed for the ILTS. The framework comprises (i) design of the questionnaire; (ii) scoring mechanism; and (iii) survey fieldwork.

3.1 Design of the questionnaire

The questionnaire is divided into three parts, including (i) background questions; (ii) scoring questions; and (iii) non-scoring questions. A total of 50 to 70 questions are set for each respondent, made up of around 10 background questions, 23 scoring questions and 17 to 37 non-scoring questions.

Background questions

Background questions cover basic demographic information such as age, gender, employment, income and education levels. These questions facilitate data analysis by demographic groups.

Scoring questions

Scoring questions aim to assess the level of insurance literacy in Hong Kong. They cover the three dimensions of insurance literacy, namely knowledge and skills (“K”), attitude (“A”) and behaviour (“B”). The scope of scoring questions is based on the themes under each dimension of insurance literacy, which are discussed in Sections 2.1.1 to 2.1.3. Individual questions adopted for scoring are based on three criteria: (i) referenceability — this means that the same or similar question has been used in another insurance literacy survey (such as Q1 on insurance principle); (ii) generality — where two questions are based on overlapping propositions, the more general one would be chosen for scoring. For example, respondents were scored based on their level of agreement with the proposition that “Insurance is an important service for everyone”, instead of “At different stages of our lives, under different circumstances, we face different risks and have different protection needs. Therefore, we need different types of insurance to respond”. And lastly (iii) relevance and commonality — this means that the tested notion, concept or terminology should be as widely applicable to respondents as possible. For example, respondents were tested on the definitions of “premium” and “deductible” instead of “coinsurance”, as the former terms are more common. Scoring questions can be found in Annex 2 on PP.40-43.

Non-scoring questions

Survey questions are adapted to the characteristics of the Hong Kong insurance market. For example, friends or family members are very influential in consumers’ decisions when they take out insurance. Product-based questions are assigned to respondents according to their insurance portfolio, so as to examine their literacy in terms of individual products. Product-based questions cover a wide range of insurance policies, such as life, medical, critical illness, personal accident, travel, home, fire, motor and pet insurance, as well as annuity.¹⁴ In order to gather insights for a public education campaign on lifetime risk profiling, some of the questions included in the questionnaire look at insurance products by life stages.

¹⁴ Accident, travel, home, fire, motor and pet insurance are classified as personal general insurance products.

3.2 Scoring mechanism

The OECD's scoring mechanism for measuring financial literacy has informed the scoring methodology used for the ILTS. The respondents' scores indicate their performance in 23 scoring questions covering K, A and B. The scoring criteria can be found in Annexes 2 and 3 on PP.40-44.

Non-policyholders' experience of insurance is obviously different from that of policyholders. For instance, non-policyholders have no experience of reviewing and renewing insurance policies. To maintain the reasonable and objective basis of the analysis, respondents are therefore categorised as non-policyholders or policyholders (*nph* or *ph*) for data analysis. Even within the policyholder sample group, some questions may further drill down to help differentiate various policyholders' behaviour. For example, the survey investigated whether policyholders had or did not have renewal experience (*giph* or *ngiph*) of general insurance policies (Q23).

All respondents have to answer 7 questions on K, with a maximum score of 7. The average score of K for all respondents, which is normalised to 100%, is obtained by using Equation (1):

$$S_{K,\%} = \sum_{i=1}^N \frac{S_{K,i}}{7} \times \frac{1}{N} \times 100\%, \quad (1)$$

where $S_{K,\%}$ stands for the average normalised score of K for all respondents, $S_{K,i}$ is the score of K for respondent i , and N is the total number of respondents.

Similarly, all respondents need to answer 8 questions on A, with a maximum score of 6. The average score of A for all respondents, which is normalised to 100%, is obtained by using the following equation:

$$S_{A,\%} = \sum_{i=1}^N \frac{S_{A,i}}{6} \times \frac{1}{N} \times 100\%, \quad (2)$$

where $S_{A,\%}$ denotes the average normalised score of A for all respondents, $S_{A,i}$ is the score of A for respondent i , and N is the total number of respondents.

Respondents need to answer different sets of questions for B, depending on whether they hold a policy or not. *nph* respondents answer 4 questions (Qs 17, 19, 20 and 21), for a maximum score of 4. *ngiph* respondents answer an additional 3 questions (Qs 16, 18 and 22) for a maximum score of 7. *giph* respondents answer all 8 questions.

As a result, the B score for all respondents, which is normalised to 100%, is obtained by using the equation below:

$$S_{B,\%} = \left[\sum_{i=1}^{N_{nph}} \frac{S_{Bnph,i}}{4} + \sum_{i=1}^{N_{ngiph}} \frac{S_{Bngiph,i}}{7} + \sum_{i=1}^{N_{giph}} \frac{S_{Bgiph,i}}{8} \right] \times \frac{1}{N} \times 100\%, \quad (3)$$

where $S_{B,\%}$ is the average normalised score of B for all respondents. $S_{Bnph,i}$, $S_{Bngiph,i}$, $S_{Bgiph,i}$ are the scores of B for *nph*, *ngiph* and *giph* respondent *i* respectively. N is the total number of respondents, which is a sum of the numbers of *nph* (N_{nph}), *ngiph* (N_{ngiph}) and *giph* (N_{giph}) respondents.

After deriving the scores of K, A and B, the scores of overall insurance literacy are computed. First, we calculate the score for *nph* respondents by using Equation (4):

$$S_{nph,\%} = \left[\sum_{i=1}^{N_{nph}} \frac{S_{Knph,i} + S_{Anph,i} + S_{Bnph,i}}{17} \right] \times \frac{1}{N_{nph}} \times 100\%, \quad (4)$$

where $S_{nph,\%}$ is the average normalised score of insurance literacy for *nph* respondents, while $S_{Knph,i}$, $S_{Anph,i}$ and $S_{Bnph,i}$ are the scores of K, A and B for *nph* respondent *i* respectively.

Then we compute the score of insurance literacy for *ph* respondents by using Equation (5):

$$S_{ph,\%} = \left[\sum_{i=1}^{N_{ngiph}} \frac{S_{Kngiph,i} + S_{Angiph,i} + S_{Bngiph,i}}{20} + \sum_{i=1}^{N_{giph}} \frac{S_{Kgiph,i} + S_{Agiph,i} + S_{Bgiph,i}}{21} \right] \times \frac{1}{N_{ph}} \times 100\%, \quad (5)$$

where $S_{ph,\%}$ is the average normalised score of insurance literacy for *ph* respondents. $S_{Kngiph,i}$, $S_{Angiph,i}$ and $S_{Bngiph,i}$ are the scores of K, A and B for *ngiph* respondent *i* respectively. $S_{Kgiph,i}$, $S_{Agiph,i}$ and $S_{Bgiph,i}$ are the scores of K, A and B for *giph* respondent *i* respectively.

After obtaining the insurance literacy scores for *nph* and *ph* respondents, the total score for all respondents is computed by taking a weighted average of $S_{nph,\%}$ and $S_{ph,\%}$ by using Equation (6):

$$S_{\%} = S_{nph,\%} \times w_{nph} + S_{ph,\%} \times w_{ph} \quad (6)$$

where $S_{\%}$ denotes the total score for all respondents, while w_{nph} and w_{ph} represent the shares of *nph* and *ph* respondents.

As respondents have different sets of scoring questions depending on whether they hold a policy, the weightings of K, A and B vary for different groups of respondents. The weighting of K, A and B for *giph* respondents is 7:6:8, which is very close to the weighting of the OECD's scoring mechanism (7:5:9). However, the weightings for *ngiph* and *nph* respondents (7:6:7 and 7:6:4 respectively) deviate slightly from the OECD's scoring mechanism. But, as non-policyholders and policyholders have different insurance-related behaviour, these weightings reflect the varying importance of behaviour in their insurance literacy. As such, the scores are representative of the insurance literacy levels of both non-policyholders and policyholders in Hong Kong.

Scores above 70% represent 'highly literate', between 50% and 70% 'moderately literate', while below 50% 'less literate'.

3.3 Survey fieldwork

The survey was conducted through face-to-face street intercept interviews, which allow interviewers to provide real time explanation and clarification to respondents. To ensure the survey was representative, the fieldwork across 18 districts in Hong Kong used Tertiary Planning Units ("TPUs")¹⁵ as the sampling units. Two TPUs were selected for each district (except for Islands, where only 1 TPU — Tung Chung — was selected). Only those who lived in the corresponding TPUs were invited for interviews.

To ensure the data collected truly reflected the characteristics of the population, quota sampling was performed against five criteria, mainly with reference to the latest statistics of population distribution published by Hong Kong's Census and Statistics Department. The five criteria were (i) age and gender; (ii) ethnicity (Chinese versus non-Chinese); (iii) employment status; (iv) residential district; and (v) monthly personal income.¹⁶ The target respondents were Hong Kong residents aged 18 to 79. The fieldwork was carried out between 1st and 22nd November 2021, with 1,009 interviews completed. The demographic profile of the sample is shown in Annex 4 on P.45.

Respondents owning personal insurance policies were invited to answer product-based questions. Having considered the reality of the multiple insurance products ownership, the Relative Selection Probabilities ("RSP")¹⁷ mechanism was introduced in the product-based question selection process. The RSP serves the purpose of striking a balance between the high referenceability in product-based questions and the length of the survey.

¹⁵ The TPU is a geographic reference system demarcated by the Planning Department of the Government of the Hong Kong Special Administrative Region for town planning purposes. The whole territory of Hong Kong is divided into 291 TPUs.

¹⁶ Quota sampling against the four criteria apart from monthly personal income was performed by referencing the statistics of population distribution published by the Census and Statistics Department. Quota sampling against monthly personal income was conducted by referencing in-house surveys of the fieldwork agency.

¹⁷ The RSP was developed by UK's Financial Conduct Authority ("FCA") and the relevant details of the RSP mechanism can be found in Annex 5 on PP.46-48.

4. KEY SURVEY FINDINGS

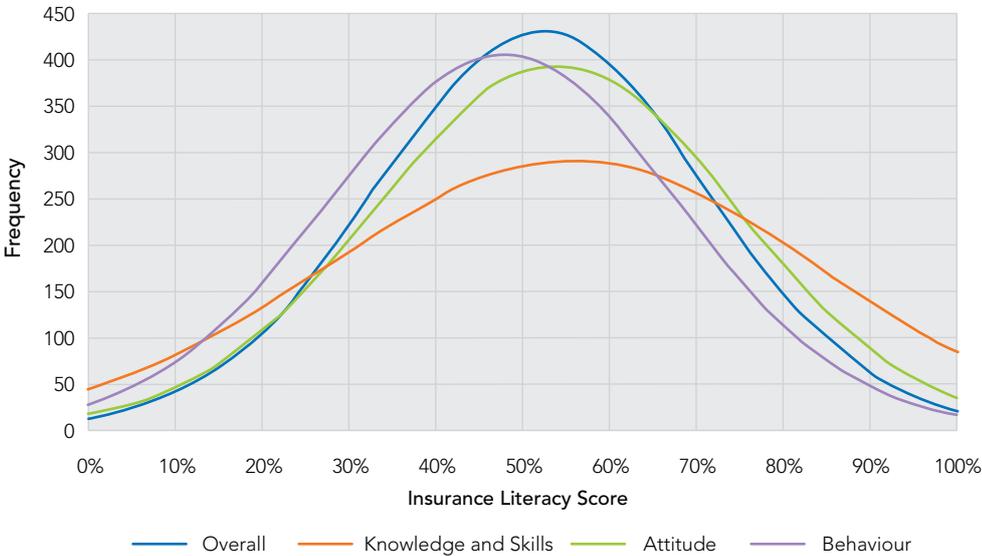
This section analyses the survey findings related to insurance literacies (overall for Hong Kong and by different socio-demographic groups). It also analyses the three dimensions (knowledge and skills, attitude and behaviour) of insurance literacy and proposes questions for discussion. Moreover, it discusses how insurance literacy differs between policyholders and non-policyholders. Product-specific findings are also outlined.

4.1 Insurance literacy in Hong Kong

4.1.1 Scores of insurance literacy

The overall score of insurance literacy is 52%, implying that respondents were moderately literate in insurance. Looking into the three dimensions of insurance literacy, the respective scores of **knowledge and skills**, **attitude** and **behaviour** are 55%, 54% and 48%, indicating respondents were moderately literate in knowledge and skills as well as attitude, while they were less literate in behaviour. (Figure 1)

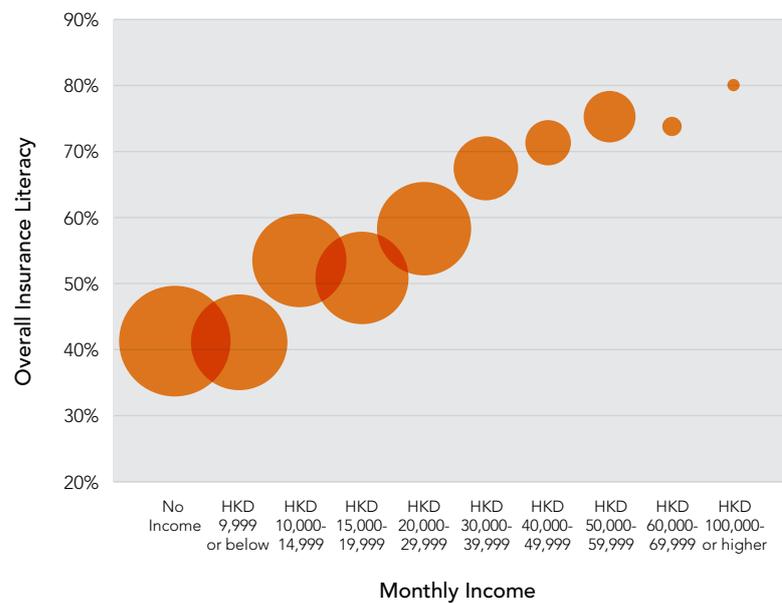
Figure 1: Insurance Literacy Scores



4.1.2 Income, education and age

Demographically, income levels, education levels and age difference give no surprising results in insurance literacy. First, insurance literacy is positively related to income level. The finding showed that the score of respondents with a monthly income level of HKD9,999 or below is 41%, while those earning HKD100,000 or above score 80%. (Figure 2)

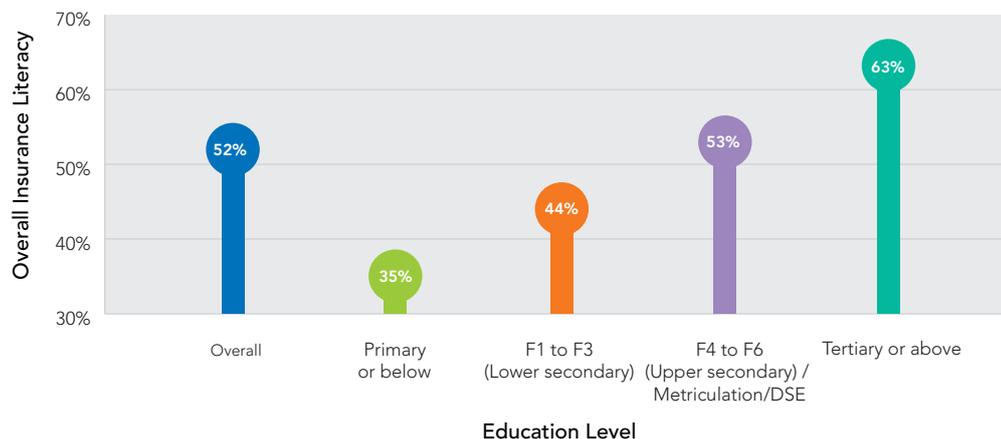
Figure 2: Insurance Literacy Level by Income



Note: The bubble size represents the number of respondents. The larger the bubble size, the more respondents there are.

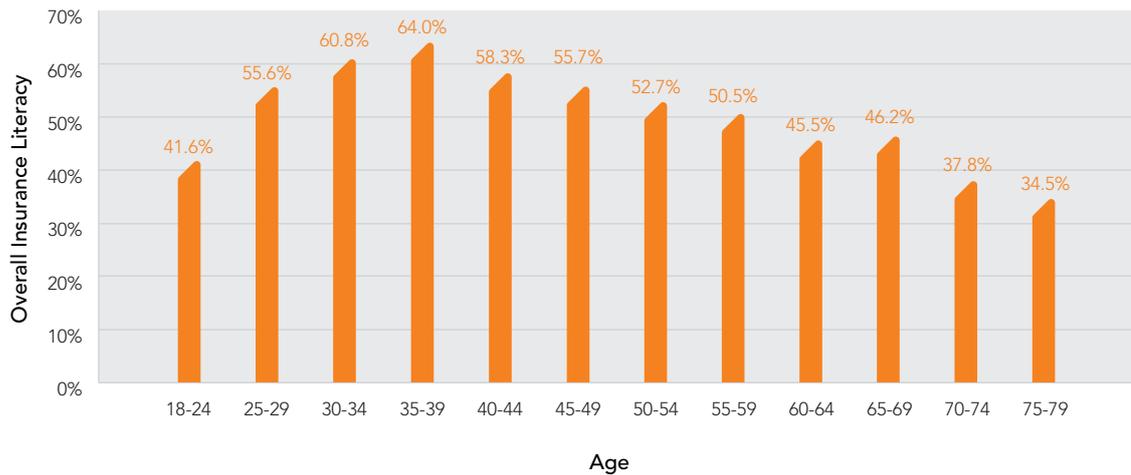
There is also a positive correlation found between insurance literacy and education level. For instance, the score of respondents graduating from primary school or below is 35%, while those graduating from tertiary education or above score 63%. (Figure 3)

Figure 3: Insurance Literacy Level by Education



For age groups, the levels of insurance literacy of respondents aged below 24 and above 60 were lower than others. Those aged between 18 and 24 score 42%, while those aged between 60 and 79 score below 50%. By contrast, respondents aged between 30 and 39 score above 60%. (Figure 4)

Figure 4: Insurance Literacy Level by Age



4.1.3 Knowledge and skills

Overall, respondents were aware of policyholders' rights. For example, 67% knew the cooling-off period of long-term insurance, including life insurance and annuity. There was also a general understanding of insurance principles — 65% of respondents acknowledged the values of insurance in mitigating the risk posed by low frequency but high severity mishaps. For product features, for example, 66% correctly pointed out that critical illness insurance primarily covers the critical illnesses specified in the policy conditions but that some additionally provide death benefit. However, there was limited knowledge about risk exposure and protection needs. This was more common in general insurance. Only 24% knew that a tenant needs home insurance.

Respondents had mixed performance in knowledge of insurance terminology. Most (83%) well understood the meaning of premium, but only 44% knew what deductible is. Regarding market players, only 39% of respondents managed to distinguish agents from brokers. Box 1 on P.24 shows the meanings of selected insurance terminology.

Box 1: Insurance terminology**Premium**

An amount that policyholders pay for insurance or to keep insurance policies effective.

Deductible

A policy provision whereby the insured are not covered for losses up to the specified amount, which is deducted from each claim or annual limit of cover.

Insurance agents

They are appointed by one or more insurer(s) and sell insurance products on behalf of those insurer(s).

Insurance brokers

They represent customers to search for the insurer(s) that provide the most appropriate insurance product(s).

Cooling-off period

In relation to a life insurance policy, this is the period of 21 calendar days that immediately follows the delivery of the insurance policy/cooling-off notice to the policyholder or the nominated representative. During the cooling-off period, the policyholder can cancel the policy and obtain a full refund of premium.

4.1.4 Attitude

Respondents generally considered insurance to be a risk mitigation tool. 76% of respondents regarded insurance as a tool to provide protection against adverse financial consequences of unforeseen events such as accident and illness. The perceived value of insurance is quite high among respondents. 59% agreed that insurance is important for everyone.

The level of trust in the insurance sector was moderate. 58% of respondents trusted insurance intermediaries' advice on insurance products, while 52% believed that insurance companies are addressing the needs of their customers when making business.

Insurance purchase was adversely affected by choice overload. 60% of respondents found it difficult to pick the best policy, as there were too many options.

4.1.5 Behaviour

Respondents often relied on the advice and experience drawn from family members or friends when contemplating to acquire insurance coverage — about 72% said that this is the most trustworthy source of information, while 43% considered the advice of their family or friends during the product selection process. 48% postponed evaluating their insurance needs, purchasing policies, paying premiums, filing claims, etc.

Policy-holding respondents seldom shopped around when purchasing and renewing their policies. Only 43% of respondents tended to make comparison between different insurance products, while nearly half of the policy-holding respondents were influenced by promotion campaigns such as premium discounts, complimentary movie tickets and healthcare services offered by insurers. On the other hand, a mere 15% of general insurance policy-holding respondents reviewed renewal terms carefully and shopped around when they renewed their policies.

Only 32% of policy-holding respondents studied the fine print, like T&Cs, carefully and read them through before committing to acquire insurance coverage. 20% read neither policy details nor brochures. The rest simply focused on brochure information and verbal advice from agents, brokers, family members or friends.

The different behaviours noted above are broadly consistent with findings in external research projects. Box 2 on P.26 lists out certain behavioural biases of consumers identified from past research on behavioural economics. While this report does not establish causality between these behavioural biases and the survey results, the behavioural biases may be considered relevant in providing additional context around the survey results.

Box 2: Behavioural biases of consumers**Over-reliance on informal information sources**

Evidence that consumers rely on their family or friends for information and advice is a sign of the bandwagon effect (Driver et al., 2018). This means that people do something primarily because others are doing so, regardless of their own beliefs. People often want to be on the winning side when they make a decision. As a result, they look towards their family or friends to see what is right and then jump on the bandwagon.

Focus on promotions

Spohn et al. (2021) suggested that promotions offered by insurance companies affect consumers' decisions via price complexity and misdirected attention. The former means consumers find it challenging to calculate true prices when they face multiple prices, such as discounts and add-ons, leading to confusion and increased possibility of errors. The latter means promotions reduce consumers' motivation for mental effort, resulting in choices becoming less deliberate but driven by emotions and feelings.

Procrastination

This can be caused by different reasons. For example, people often postpone making unpleasant decisions, while emotional stress and lack of self-efficacy cause people to delay making decisions (Steel, 2007). Choice overload can also lead to procrastination. When the number of options expands, people will become overwhelmed, with a tendency to put off decisions or even choose nothing (Baicker et al., 2012).

Passiveness and inertia

The complexity of T&Cs (to be discussed below) makes policy comparison very time-consuming. Moreover, policyholders often renew their policies with their current insurers due to a perception that switching is risky and with preference for the familiar rather than the best deal (Suter et al., 2017).

Non-reading of T&Cs

Previous studies (Bartlett and Plaut, 2011; Elshout et al., 2020) suggested the following reasons for consumers not reading T&Cs: they are often too long and time-consuming to read, and they are also written in complex legal language, which is difficult to understand. Moreover, consumers may have a perception that no one reads T&Cs or that they have no choice but to accept them. As a result, there is no point in reading them.

4.1.6 Questions for discussion

The regulator, in collaboration with market players and practitioners, will engage the general public to study the following questions in order to improve the insurance literacy of consumers.

Knowledge and skills

1. What is a sufficient level of insurance literacy for a potential customer to make sound decisions? What can be done to enhance the overall understanding of risk exposure and protection needs? What are the types of risks that are most overlooked?
2. Some product features could be confusing, difficult to understand or misperceived by policyholders, thus hindering them from acquiring appropriate insurance coverage. For example, most people view home insurance as a matter only for homeowners even though tenants and the respective personal liability should also be covered by home insurance. What can be done to enhance the general understanding of various personal lines products?
3. How is a better understanding of the difference between insurance agents and brokers relevant to prospective customers? Should prospective customers be encouraged to exercise more pre-purchase due diligence (such as evaluating the suitability of insurance products) if they talk to an agent compared to a broker? Does due-diligence of prospective customers differ in case of bancassurance distribution?
4. How might some industry jargon, such as "deductible", be better explained in layman terms, including its purpose and benefits, in the simplest way possible? Are there ways to reduce the use of jargon (or complex expressions) in the industry?

Attitude

5. What can be done to help increase peoples' perceived value of insurance?
6. What are the main reasons for the suboptimal level of confidence in the insurance industry? How to improve it?
7. Why do some people think that insurance is mainly designed for the elderly and the less healthy? How might one reverse this common misconception?

Behaviour

8. How do promotions offered by insurers affect consumers' decision making? What should the regulator's role be in facilitating sound decision making (such as regulating the availability of promotion and the presentation of such promotional information)?
9. Clearly, a choice of automatic renewal is one way to speed up the process. However, for the benefits of policyholders, what might better incentivise existing customers to acquire sufficient information and make reasonable comparison of insurance products before their policy renewal?
10. How might one strike a good balance between keeping the T&Cs section short and finding a way to include all relevant information? Are there any details that can be standardised for easier comparison?

4.1.7 Insurance literacy scores and salient findings by life stages

Apart from the literacy level in the overall community, the ILTS also investigated insurance literacy by life stages. The five life stages defined in the ILTS are 1) Youth, 2) Career Starters, 3) Mature Working Adults, 4) Married Persons and 5) Pre-retirees & Retirees.

As a general comparison between the life stages, **Married Persons performed the best in the insurance literacy assessment, followed by Mature Working Adults and Career Starters. Youth were the least insurance literate, followed by Pre-retirees & Retirees**; both groups score less than 50% in all the three dimensions of insurance literacy, as well as overall insurance literacy. For details about literacy level by life stages, please refer to the thematic report named "Lifetime Risk Profiling and Insurance Literacy"¹⁸.

4.2 Insurance literacy of policyholders versus non-policyholders

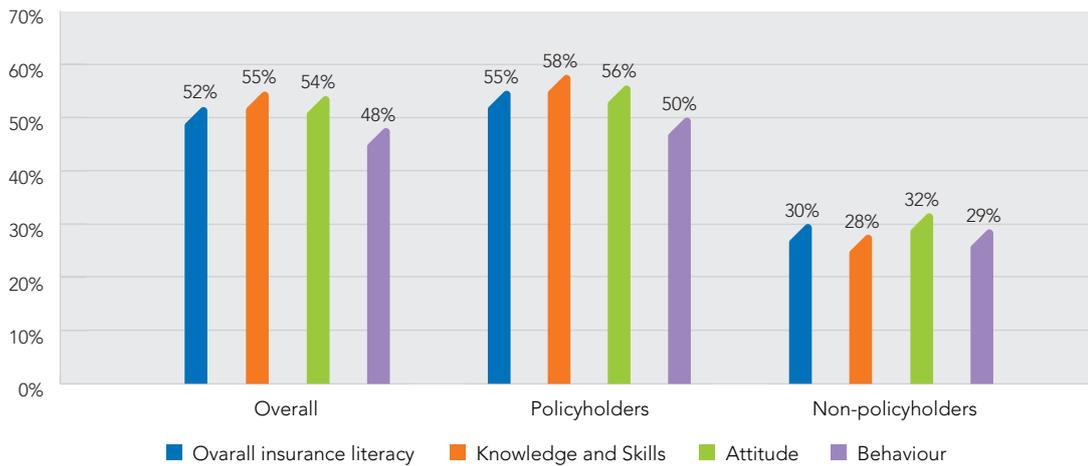
4.2.1 Scores of insurance literacy: policyholders versus non-policyholders

Among the 1,009 respondents, 908 (or 90%) are policyholders while 101 (or 10%) are non-policyholders.

¹⁸ https://www.ia.org.hk/en/infocenter/files/Insurance_Literacy_Tracking_Survey_Thematic_Report_Eng.pdf

Non-policyholders had significantly lower levels of insurance literacy than policyholders. The overall insurance literacy score of non-policyholders is 30% — much lower than the 55% for policyholders. A similar pattern is found in the three dimensions of insurance literacy. (Figure 5)

Figure 5: Insurance Literacy Level by Policy-holding Status¹⁹



4.2.2 Common patterns of literacy of non-policyholders

This section describes common patterns of literacy observed among non-policyholders, with reference to the literacy assessment framework that was used to conduct this survey. Some of these patterns may contribute to them under-engaging with insurance. As a result, they continue to have a lower insurance literacy, as well as not getting any or enough insurance protection.

1. Lack of insurance knowledge

Having established that people with low insurance literacy do not see much value in insurance, many do not have any insurance policy at all. The observation echoes the fact that non-policyholders had lower levels of insurance knowledge than policyholders. For example, 86% of non-policyholders (vs 31% of policyholders) could not distinguish agents from brokers. 80% of non-policyholders (vs 27% of policyholders) were unsure about the meaning of deductible. Moreover, only 42% of non-policyholders (vs 63% of policyholders) understood the primary function of life insurance is to provide a lump sum death benefit for beneficiaries to support dependents. This is consistent with a study by Weedige et al. (2019), level of insurance literacy (which is defined as insurance-related knowledge) positively affects behavioural intention to purchase personal insurance.

¹⁹ Policyholders answered 7 or 8 scoring questions on behaviour, while non-policyholders only answered 4. The behavioural and overall scores shown in Figure 5 are those before base adjustment. In order to make a comparison on the same base (that is 4 behavioural questions answered by both policyholders and non-policyholders), we computed the behavioural and overall scores by adjusting the base. The behavioural scores after base adjustment for policyholders and non-policyholders are 50% and 29% respectively, while the overall scores are 56% and 30% respectively. Moreover, the behavioural and overall scores after base adjustment for all respondents are 48% and 53% respectively.

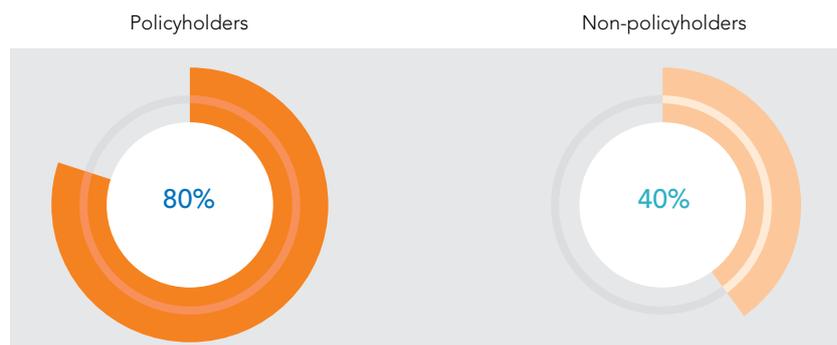
2. Lack of confidence in insurance knowledge

Coupled with the problem of low knowledge level is a low confidence level, which impedes one's insurance decision making. 24% of non-policyholders (vs 5% of policyholders) were under-confident in their insurance knowledge.²⁰ This may be attributed to the fact that most of the selected non-policyholders often relied on informal information sources. 92% of non-policyholders (vs 69% of policyholders) relied on comments and advice from family or friends when they were considering purchasing insurance. By contrast, only 20% of non-policyholders (vs 66% of policyholders) took recommendations from insurance intermediaries. When consumers are less confident in their knowledge, they feel hesitant during the decision making and purchasing process.

3. Lack of awareness of lifetime risk profiles

It was found that less literate people are not very aware of lifetime risk profiles, with only 40% (Figure 6) of non-policyholders (compared with 80% of policyholders) agreeing that they need different types of products to adequately cover their insurance needs in various life stages (or life risk profiling). As a result, the lack of awareness eventually led to them being underinsured against the risks in their corresponding life stages. This may lead to a loss of dependents' financial support when misfortune strikes. A thematic report on lifetime risk profiling and insurance literacy issued by the IA has more details about the risk exposures that individuals face during their lifetime and the corresponding protection needs (please refer to the thematic report named "Lifetime Risk Profiling and Insurance Literacy").

Figure 6: Percentages of Policyholders and Non-policyholders in Awareness of Lifetime Risk Profiles



²⁰ Details about the estimate of "perception gap", or the gap between the actual and self-assessed levels of knowledge, can be found in Annex 6 on P.49.

4. Lower perceived value of insurance

Perceived value of insurance relates to the extent to which consumers believe that they will be better off by taking out personal insurance (Weedige et al., 2019). Indeed, 49% of non-policyholders (vs 14% of policyholders) did not agree that insurance is important for everyone. Additionally, nearly half of non-policyholders (vs 25% of policyholders) mistakenly believed that they do not need life insurance until they get old. 42% of non-policyholders (vs 20% of policyholders) had a misconception that only frail people need medical insurance.

5. Lack of trust in the insurance sector

Academia defines trust in the insurance sector as being the consumers' belief that intermediaries, insurers and insurance policies will fulfill their contractual obligations (Weedige et al., 2019). Hence, it is obvious that without trust by both parties (sellers and buyers), a contract of insurance cannot be initiated and continue. Non-policyholders in particular did not generally trust insurance intermediaries and insurers. 43% of non-policyholders (vs 4% of policyholders) would not trust the advice of insurance intermediaries. Meanwhile, 53% of non-policyholders (vs 7% of policyholders) did not believe that insurance companies would well address the needs or safeguard the interests of customers.

6. Procrastination in dealing with insurance

While it was common for consumers (as reflected by 48% of respondents) to put off dealing with insurance, procrastination was particularly prevalent among non-policyholders. Only 6% of non-policyholders (vs 21% of policyholders) said that they did not delay making decisions, including taking out insurance.

7. Less burdened by financial obligations or dependents

The survey found that all respondents who were repaying outstanding mortgage commitments were policyholders. Of respondents who were supporting dependents, 96% were policyholders. By contrast, of those respondents who were not repaying an outstanding mortgage, supporting dependents or owning a car or pet, 81% were policyholders and 19% were non-policyholders. Hence, having little financial burden may make one feel that learning about insurance and purchasing insurance are less pressing.

4.3 Product-specific findings

The survey findings related to insurance products are outlined below. These products include: various types of life insurance, annuity, medical insurance, critical illness insurance, home and fire insurance, personal accident insurance, travel insurance and motor insurance.

Life insurance

- **Uneven focus on the savings potential and the mortality risk protection coverage**, which is the core function of life insurance, of an insurance policy. 80% of respondents holding life insurance said that insurance products with an amount payable to policyholders at the maturity of the policy (such as whole life insurance) are better than those without (such as term life insurance).
- Only 11% of policy-holding respondents used online assessment tools or performed insurance need calculation on their own when they calculated the sum assured of policies. 20% did not perform any calculation. Instead, they followed their feelings and chose something that fit their budgets. 35% relied on the advice of their family or friends who had experience.
- Of policy-holding respondents who calculated the target sum assured, only 15% did not take out a policy that matched the target sum.
- **The technical calculation in life insurance policies with savings element was not commonly understood by policyholders.** For example:
 - 28% of respondents holding whole life, universal life or endowment policies believed that they well understood the benefit illustrations of life insurance policies.
 - 38% of respondents holding whole life, universal life or endowment policies knew that the dividend or account value in the projections is not guaranteed.
 - 41% of respondents holding investment-linked assurance scheme ("ILAS") policies had a misconception that the pessimistic scenario projections in benefit illustrations present the lowest possible values of the account. (Note: Pessimistic scenarios refer to the 25th percentile of investment returns in projections.)
 - 29% of respondents holding whole life, universal life or endowment policies knew that they have the right to access the fulfillment ratios from insurers' websites.
- Box 3 on P.36 explains the benefit illustrations and the fulfillment ratio of life insurance policies.

ILAS

- **Investment options** (61%) and **performance (historical and projected) of funds** (57%) were the two main concerns when **ILAS policyholders took out the policy**, while the sum assured (32%) and fees and charges (32%) were not key.
- 32% did not review the investment fund choice once the policy was in force.
- 82% said that **lowering or capping fees and charges was the most welcomed improvement**, followed by increased fund options (57%), improved liquidity (such as flexibility to top up and withdraw account value) (55%), better disclosure or higher transparency about expenses (such as commission/brokerage, cost of insurance and other fees) (36%), and increase in protection element (30%).

Annuity

- **Policyholders generally understood the core functions of annuity**. 99% and 51% of policy-holding respondents said that the primary functions of annuity are providing stable income stream and hedging against longevity risk respectively.
- **Duration of the annuity period and internal rate of return (“IRR”) were the two most crucial factors considered by policyholders when purchasing annuity**. The respective 40% and 48% of deferred and immediate annuity policyholders ranked high on the length of annuity period. Meanwhile, 16% and 52% of deferred and immediate annuity policyholders respectively regarded IRR as a top priority.

Medical insurance

- **The relatively high popularity of medical insurance**, as reflected by 52% of respondents holding individual medical insurance, **was driven by rising awareness of protection needs amid the pandemic**. Financing private hospital services (78%) and getting faster medical diagnosis (57%) were the two main reasons for policy-holding respondents to purchase medical insurance.
-

Medical insurance

- **There are some issues related to using medical insurance.** For example:
 - 45% of policy-holding respondents wrongly believed that future premiums would be charged based on the premium table which is currently effective.
 - 46% mistakenly believed that insurance companies are responsible for non-essential inpatient care expenses.
 - 33% did not understand that diseases or symptoms occurring during the waiting period after the policy commencement are excluded from the coverage.
 - 27% avoided or would avoid using private medical services even if they had medical cover. First, they worried about a premium hike in the next renewal or even the existing policy not being renewed. Second, they did not fully understand their coverage, thus prompting them to walk away from receiving private medical services even when they are supported by their policies.
- 80% of policy-holding respondents agreed that a medical insurance policy with **standardised T&Cs and minimum benefit coverage would strengthen their confidence towards the product.**

Critical illness insurance

- Of respondents holding a critical illness insurance product, dual function type (i.e. for both protection and savings; 48%) and pure protection type (51%) shared similar market size. When asked what their decision would be if they could re-choose, 6% of respondents chose both types; 61% chose dual function type and 33% chose pure protection type.
-

-
- Home and fire insurance**
- **Few respondents held home or fire insurance** — only 16% of respondents owned home or fire insurance.
 - **Most respondents showed inadequate understanding of the different scopes of coverage offered by home and fire insurance.** Only 24% of respondents said that a tenant needs home insurance. For fire insurance, only 28% of policy-holding respondents correctly answered that compensation is based on rebuilding cost; others wrongly believed compensation would be based on the market price of the apartment (28%), outstanding mortgage (25%) or sum insured stated in the policy (16%).
 - Despite the growing threat of natural disasters amid climate change, a mere 5% of policy-holding respondents considered natural disasters when they purchased insurance.

-
- Personal accident insurance**
- 40% of respondents holding personal accident insurance believed that the best time to buy such insurance is before participating in high-risk activities.

-
- Travel insurance**
- 38% of respondents bought their travel insurance shortly after their air ticket or hotel booking was confirmed; 58% bought their travel insurance from about one to two days to two weeks before the trip.

-
- Motor insurance**
- 52% of respondents holding motor insurance did not realise that a comprehensive plan (which covers both own damage and third-party liability) covers bodily injury in a collision, and 29% were not aware that it covers property damage to the other vehicle.
-

Box 3: Benefit illustrations and fulfillment ratio of life insurance policies**Benefit illustrations**

These are provided to customers of life insurers and show the projected surrender values and death benefits of the policies. The IA sets out the requirements for benefit illustration documents in the Guideline on Benefit Illustrations for Long Term Insurance Policies ("GL28"). In addition to point-of-sale benefit illustrations, insurers should periodically provide in-force re-projection illustrations reflecting the latest performance of the policy. Insurers may provide supplementary illustrations in relation to optional product features, which policyholders may elect from time to time (such as premium holiday and partial surrender). GL28 applies to ILAS, participating, non-participating and universal life products.

Fulfillment ratio

This is a ratio of non-guaranteed dividends or bonuses actually declared against the illustrated amounts at the point of sale. Considering the features of different dividends and bonuses, insurers disclose three types of fulfillment ratios, including annual dividends, reversionary bonuses and terminal dividends or bonuses. According to the IA's Guideline on Underwriting Long Term Insurance Business (Other Than Class C Business) ("GL16"), insurers are required to disclose their fulfillment ratios for participating policies on their websites.

5. CONCLUSION

The survey findings show that respondents scored moderately in overall insurance literacy. Their scores in terms of knowledge and skills, as well as attitude, are at the moderately literate level, while slightly below this for behaviour. There was a general understanding about policyholders' rights, insurance principles and product features, but limited knowledge of risk exposure and protection needs. The perceived value of insurance is quite high and the level of trust in the insurance sector is moderate, but insurance purchase was adversely affected by choice overload. Behavioural issues, such as over-reliance on the advice and experience of family or friends, procrastination in dealing with insurance, limited policy comparison, focus on promotions and inadequate reading of T&Cs, were identified.

Apart from the overall literacy level, the ILTS also investigated insurance literacy by different life stages – **Married Persons performed the best, followed by Mature Working Adults and Career Starters. Youth were the least insurance literate, right after Pre-retirees & Retirees.** The groups of Youth and Pre-retirees & Retirees score less than 50% in all the three dimensions of insurance literacy, as well as overall insurance literacy.

At the same time, policyholders showed significantly higher insurance literacy than non-policyholders. Some common patterns, which may contribute to non-policyholders under-engaging with insurance, were observed. They include lower perceived value of insurance, lack of trust in the insurance sector, inadequate insurance knowledge and confidence in their insurance knowledge, and lack of awareness of lifetime risk profiles.

The ILTS gives insights by which to monitor the evolving trends of insurance literacy. It thus helps refine and formulate the strategies for supervisory policies and public education in the future. Currently, the IA performs various duties to uphold good market conduct, such as promulgating guidelines, setting out standards, evaluating insurers' business practices from cultural and ethical perspectives, and taking disciplinary action against unethical conduct cases (please refer to Annex 7 on PP.50-52 for more details). The IA also believes that trust between the insurance industry and prospective or existing policyholders is the cornerstone of a market with high integrity. Looking ahead, the IA will collaborate with like-minded organisations to develop public education campaigns to uplift the insurance literacy of the general public, particularly non-policyholders, with the aim of promoting insurance inclusion and hence the social value of insurance. The general public, the insurance sector and regulator are encouraged to work together on improving the insurance literacy of consumers.

Annex 1: Core questions of the OECD/INFE survey

Dimension	Theme	Question	Scoring criterion
Knowledge	Division	Imagine that five brothers are given a gift of \$1,000. If the brothers have to share the money equally, how much does each one get? [Open response]	1 for correct response. 0 for all other cases.
	Time-value of money	Imagine that the brothers have to wait for one year to get their share of the \$1,000 and inflation stays at a certain percent. In one year's time, will they be able to buy: [Response: Multiple choices]	
	Interest paid on a loan	You lend \$25 to a friend one evening and he gives you \$25 back the next day. How much interest has he paid on this loan? [Open response]	
	Calculation of interest plus principal	Suppose you put \$100 into a savings account with a guaranteed interest rate of 2% per year. You don't make any further payments into this account and you don't withdraw any money. How much would be in the account at the end of the first year, once the interest payment is made? [Open response]	
	Compound interest	And how much would be in the account at the end of five years? Would it be: [Response: Multiple choices]	
	Risk and return	An investment with a high return is likely to be high risk [Response: True/False]	
	Definition of inflation	High inflation means that the cost of living is increasing rapidly [Response: True/False]	
	Diversification	It is usually possible to reduce the risk of investing in the stock market by buying a wide range of stocks and shares [Response: True/False]	
Attitude	Financial attitude	I tend to live for today and leave tomorrow to take care of myself [Scaled response: 1=completely agree; 5=completely disagree]	Based on the 5-point scale.
		I find it more satisfying to spend money than to save it for the long term [Scaled response: 1=completely agree; 5=completely disagree]	
		Money is there to be spent [Scaled response: 1=completely agree; 5=completely disagree]	

Dimension	Theme	Question	Scoring criterion	
Behaviour	Considered purchase	Before I buy something I carefully consider whether I can afford it [Scaled response: 1=completely agree; 5=completely disagree]	1 point for respondents choosing 1 or 2 on the scale. 0 in all other cases.	
	Timely bill payment	I pay my bills on time [Scaled response: 1=completely agree; 5=completely disagree]		
	Keeping watch of financial affairs	I keep a close personal watch on my financial affairs [Scaled response: 1=completely agree; 5=completely disagree]		
	Long term financial goal setting	I set long term financial goals and strive to achieve them [Scaled response: 1=completely agree; 5=completely disagree]		
	Responsible and has a household budget	Who is responsible for making day-to-day decisions in your household [Response: Personally/jointly]	And does your household have a budget [Response: Yes/No]	1 point if personally or jointly responsible for money management and has a budget. 0 in all other cases.
	Active saving	This question identifies a range of different ways in which respondent may save. People who refused to answer score 0.	1 point for any type of active saving (excluding letting money build up in a current account). 0 in all other cases.	
	Choosing products	Which of the following statements best describes how you made your choice [Response: Multiple choices such as considering options from different companies and not considering any other options]	Which sources of information do you feel most influenced your decision [Response: Multiple choices such as product-specific information and general advice]	1 point for people who tried to shop around or gather any information. 2 points for people who shopped around and gathered independent information. 0 in all other cases.
Borrowing to make ends meet	What did you do to make ends meet the last time this happened [Multiple responses allowed]	0 if respondent used credit to make ends meet. 1 in all other cases.		

Annex 2: Scoring questions of the ILTS

Dimension	Theme	Question	Scoring criterion
Knowledge and skills	Insurance principle	<p>Q1. Which of the following statements is more appropriate? "Insurance is more effective when..."</p> <p>A. A risk occurs with low frequency, causing a large loss B. A risk occurs with high frequency, causing a small loss C. Unsure</p>	1 point if "A" is chosen; 0 point otherwise.
	Risk exposure and protection needs	<p>Q2. Does a tenant need home insurance protection?</p> <p>A. Yes B. No C. Unsure</p>	1 point if "A" is chosen; 0 point otherwise.
	Insurance terminology	<p>Q3. What is the difference between an agent and a broker?</p> <p>A. Through selling an insurance policy to a client, an insurance agent gets remunerated, whereas an insurance broker does not get remunerated. B. An insurance agent is appointed by one, or only a few insurers, and only sells the insurance products on behalf of its appointing insurer(s). By contrast, an insurance broker represents the customer to source the most appropriate insurance for the customer and considers the insurance products offered by numerous insurers for this purpose. C. Insurance agents and insurance brokers are essentially the same. They have different titles for the same job. D. I do not know the differences between agent and broker.</p>	1 point if "B" is chosen; 0 point otherwise.
		<p>Q4. With regards to an insurance policy, what does "premium" mean?</p> <p>A. The maximum amount payable by the insurance company for each covered benefit item in the policy. B. The amount you pay for the insurance, or the amount you pay to keep the insurance policy effective. C. The amount specified in the policy up to which the insured is not covered. It is always deducted from each claim. D. A bonus payment the insurer pays the policyholder for not making any claims. E. None of the above F. Unsure</p>	1 point if "B" is chosen; 0 point otherwise.
		<p>Q5. What is a deductible?</p> <p>A. The maximum amount payable by the insurance company for each covered benefit item in the policy. B. The amount you pay for the insurance, or the amount you pay to keep the insurance policy effective. C. The amount specified in the policy up to which the insured is not covered, which is always deducted. D. None of the above E. Unsure</p>	1 point if "C" is chosen; 0 point otherwise.

Dimension	Theme	Question	Scoring criterion
Knowledge and skills	Policyholders' rights and responsibilities	Q6. If you regret taking out a long-term insurance policy the day after the policy becomes effective, is cancellation possible? A. No B. Yes, within a limited period of time, but with a penalty C. Yes, within a limited period of time, without a penalty D. Unsure	1 point if "C" is chosen; 0 point otherwise.
	Product features	Q7. Which of the following is correct about the policy coverage of various insurance products? A. Critical illness insurance mainly covers critical illnesses specified in the policy. Some critical illness insurance policies provide death benefits. B. The majority of life insurance does not cover death caused by murder or from suicide. C. Personal accident insurance can cover medical expenses caused by sickness or disease. D. Unsure	1 point if "A" is chosen; 0 point otherwise.
Attitude	Perceived value of insurance	Q8. Please indicate your level of agreement with this statement. <i>"Insurance is an important service for everyone."</i>	1 point if "agree" or "strongly agree" is chosen; 0 point otherwise.
		Q9. In your opinion, what is the fundamental purpose of insurance? A. To protect against the adverse financial consequences of unforeseen events such as accident, illness, property damage. B. To serve as a tool for capital or wealth accumulation. C. To reduce cash flow uncertainty. D. To fulfill legal requirements. E. Other, please specify.	1 point if "A" is chosen; check to decide scoring if "E" is chosen; 0 point otherwise.
		Q10. Please indicate your level of agreement with this statement. <i>"I don't need life insurance until I am old."</i>	0.5 points if "disagree" or "strongly disagree" is chosen; 0 point otherwise.
		Q11. Please indicate your level of agreement with this statement. <i>"Only weak or unhealthy people need medical insurance."</i>	0.5 points if "disagree" or "strongly disagree" is chosen; 0 point otherwise.
	Trust in insurance	Q12. Do you trust insurance intermediaries, in terms of their advice on suitable insurance products for you?	0.5 points if "quite well" or "very much" is chosen; 0 point otherwise.
Q13. Please indicate your level of agreement with this statement. <i>"Although insurance companies aim to make profit, they also aim to serve the welfare of their customers."</i>		0.5 points if "agree" or "strongly agree" is chosen; 0 point otherwise.	

Dimension	Theme	Question	Scoring criterion
Attitude	Consumers' confidence in decision making	Q14. How much do you think you know about insurance?	1 point if respondent shows that his/her confidence level is aligned with his/her overall knowledge level; 0 point otherwise. (Scoring method can be found at Annex 3 on P.44)
		Q15. How well does this statement describe your experience of buying insurance? <i>"Generally, because there are so many different insurance policies available, it is hard for me to decide which one is best for me."</i>	1 point if "not at all" or "not quite" is chosen; 0 point otherwise.
Behaviour	Pre-purchase behaviour <i>(Only answered by policyholders without experience of renewing general insurance policies)</i>	Q16. Which of the following best describes your approach to buying insurance? A. I like to shop around and consider and compare insurance policies offered by different insurance companies. B. I consider several insurance policies, but only from one insurance company. C. I consider only one insurance policy.	1 point if "A" is chosen; 0.5 points if "B" is chosen; 0 point otherwise.
	Pre-purchase behaviour	Q17. Which of the below is the main way you rely on to decide what type of insurance you need? A. I go with my intuition. B. My family or friends (i.e. observing what happened to them, or considering their advice). C. I seek advice from an insurance intermediary. D. I teach myself about insurance (online), to assess my own needs. E. Other, please specify.	1 point if "C" or "D" is chosen; check to decide scoring if "E" is chosen; 0 point otherwise.
	Pre-purchase behaviour <i>(Only answered by policyholders without experience of renewing general insurance policies)</i>	Q18. Which of the following best describes what you do to understand the details of your insurance policy? A. I read all the terms and conditions in my insurance policy. B. I do not read the insurance policy, but I do read the brochure for the insurance policy. C. I do not read the insurance policy or brochure.	1 point if "A" is chosen; 0 point otherwise.

Dimension	Theme	Question	Scoring criterion
Behaviour	Pre- and post-purchase behaviour	Q19. How well does this statement describe your experience? <i>"When I need to do something about my insurance, such as evaluating my insurance needs, purchasing a policy, paying the premium, information update, filing claims, etc., I often put it off until later."</i>	1 point if "not at all" or "not quite" is chosen; 0 point otherwise.
	Post-purchase behaviour	Q20. Is the below statement true or false? <i>"One can use personal accident insurance to claim for medical expenses arising from treating a pre-existing injury."</i> A. True B. False C. Unsure	1 point if "B" is chosen; 0 point otherwise.
	Pre-purchase behaviour	Q21. Is the below statement true or false? <i>"A customer is obliged to disclose all vital information to the insurance company when s/he takes out an insurance policy, whether or not the insurer asks for it."</i> A. True B. False C. Unsure	1 point if "A" is chosen; 0 point otherwise.
	Post-purchase behaviour <i>(Only answered by policyholders without experience of renewing general insurance policies)</i>	Q22. How often do you review your insurance plan, to ensure it continues to suit your needs? A. Regularly, out of my own habit. B. Change in personal circumstances e.g. from being single to being married, purchase of a property with a mortgage, dependents responsibilities etc. C. Regularly, with the insurance intermediary. D. Never	1 point if "A", "B" or "C" is chosen; 0 point otherwise.
	Post-purchase behaviour <i>(Only answered by policyholders with experience of renewing general insurance policies)</i>	Q23. Which of the following statements best describes your behaviour related to renewing a general insurance policy (e.g. home insurance and motor insurance)? A. I usually select the auto-renewal option when I first purchase the policy, or I always just renew without consideration. B. I usually review the renewal terms quickly and renew the policy if there are no significant changes. C. I usually review the renewal terms carefully before making a decision. Moreover, I attempt to shop around to check if there might be a better alternative. D. I have no experience in renewing an insurance policy. [Note: respondents choosing "D" are counted as policyholders without experience of renewing general insurance policies.]	1 point if "C" is chosen; 0 point otherwise.

Annex 3: Scoring method for the question on confidence in insurance decision making

There are two steps for computing the score for the question on confidence in insurance decision making.

Step 1

Add up how many of the following seven questions related to knowledge and skills were answered correctly:

- What is the main purpose of buying life insurance?
- What is the difference between an agent and a broker?
- With regards to an insurance policy, what does "premium" mean?
- What is a deductible?
- Is the below statement true or false? *"One can use personal accident insurance to claim for medical expenses arising from treating a pre-existing injury."*
- If you regret taking out a long-term insurance policy (such as life insurance, annuity) the day after the policy becomes effective, is cancellation possible?
- Is the below statement true or false? *"A customer is obliged to disclose all vital information to the insurance company when s/he takes out an insurance policy, whether or not the insurer asks for it."*

Step 2

Respondent scores 1 point when any of the below is true:

- If s/he answers 2 to 5 questions correctly, and s/he chooses "not quite".
- If s/he answers 3 to 6 questions correctly, and s/he chooses "average".
- If s/he answers 4 to 7 questions correctly, and s/he chooses "decent amount of knowledge".
- If s/he answers 5 to 7 questions correctly, and s/he chooses "a lot".

Annex 4: Key demographic profile of the sample

Age and gender

Age group	Male	Female	Sample size
18 – 29	74	84	158
30 – 39	84	110	194
40 – 49	76	109	185
50 – 59	91	109	200
60 – 69	87	91	178
70 – 79	46	48	94
Total	458	551	1,009

Ethnicity

	Sample size
Chinese	981
Non-Chinese	28

Employment status

	Sample size
Working	600
Non-working	409

Residential district

	Sample size
Hong Kong Island	170
Kowloon	309
New Territories	530

Monthly personal income

	Sample size ²¹
Below HKD10,000	382
HKD10,000 – HKD19,999	307
HKD20,000 – HKD29,999	160
HKD30,000 – HKD39,999	71
HKD40,000 – HKD49,999	33
HKD50,000 or above	56

²¹ The sample size is consistent with the bubble size shown in Figure 2 on P.22.

Annex 5: The RSP mechanism

The product-based questions in the questionnaire were grouped into 12 sets, including three related to life insurance, namely (1) term life; (2) whole life, universal life insurance and endowment; (3) ILAS; (4) medical insurance; (5) critical illness insurance; (6) deferred annuity; (7) immediate annuity; (8) personal accident insurance; (9) travel insurance; (10) home and fire insurance; (11) motor insurance; and (12) pet insurance. Each policy-holding respondent answered one or two randomly assigned sets that they are eligible for. Respondents who are holders of any insurance product other than pet insurance were assigned one set of product-based questions. Respondents who are pet owners also answered the pet insurance set, which contains only one question. Pet owners who are not insurance policyholders only answered the pet insurance set. For respondents holding more than one insurance product, the RSP mechanism was applied to determine which set of questions they were asked.²²

Under the RSP mechanism, each set of product-based questions was assigned a fixed value known as the RSP value. The RSP value of a set of questions is 1 divided by the estimated penetration rate of the corresponding insurance product. The probability of each set of questions being selected is equal to the RSP value for that set divided by the sum of all RSP values of all sets of questions. A random number between 0 and 1 is used to determine which set of questions is selected, applying the probabilities determined by the RSP values. In other words, the sets of questions of insurance products with lower penetration rates have a higher probability of being selected.

An example is shown below for elaboration:

Step 1: The estimated penetration rates for life insurance, critical illness insurance and personal accident insurance are 26%, 21% and 39% respectively.

Step 2: The RSP values of their respective sets of questions are:

- Life insurance: $1/0.26 = 3.85$
- Critical illness insurance: $1/0.21 = 4.76$
- Personal accident insurance: $1/0.39 = 2.56$

Step 3: The probabilities of each set of questions being selected are:

- Life insurance: $3.85/(3.85 + 4.76 + 2.56) \times 100\% = 34\%$
- Critical illness insurance: $4.76/(3.85 + 4.76 + 2.56) \times 100\% = 43\%$
- Personal accident insurance: $2.56/(3.85 + 4.76 + 2.56) \times 100\% = 23\%$

²² Please refer to Financial Conduct Authority (2021) for the details of the RSP mechanism.

Step 4: A random number between 0 and 1 determines the set of questions that is selected. In this example, a random number between 0 and 0.34 means respondent answers the life insurance set; a random number exceeding 0.34 but at or below 0.77 means respondent answers the critical illness insurance set; a random number exceeding 0.77 but at or below 1 means respondent answers the personal accident insurance set.

The starting RSP values (batch 1 values) were set in advance of fieldwork, based on the estimated penetration rates of insurance products. The RSP values were adjusted regularly during the fieldwork period to ensure a sample of sufficient size for each set of questions was achieved. Table A1 below shows the RSP values for the survey.

Table A1: The Survey RSP Values

Product type	Batch 1 value* (effective between 1-8 Nov 2021)	Batch 2 value*** (effective between 9-16 Nov 2021)	Batch 3 value*** (effective between 17-22 Nov 2021)
Life insurance — term life	9.09	27.31	200.00**
Life insurance — whole life, universal life and endowment	1.96	1.67	1.18
Life insurance — ILAS	8.33	14.01	50.92
Medical insurance	2.04	2.10	1.42
Critical illness insurance	5.26	2.59	1.61
Deferred annuity	200.00**	26.63	34.84
Immediate annuity	200.00**	200.00**	73.56
Personal accident insurance	8.33	8.07	7.36
Travel insurance	6.67	1.06	1.12
Home and fire insurance	11.11	20.64	47.29
Motor insurance	14.29	15.21	37.83
Pet insurance	0.00	0.00	0.00

Notes:

- * The penetration rates of insurance products used for computing the starting (batch 1) RSP values were estimated based on the internal statistics of the IA and the pilot of this survey.
- ** An RSP value of “200.00” was assigned when the penetration rate of a particular product was so low that the project team expected a chance of not getting a sample size of 50 (for that particular set), therefore the assignment of a much inflated value to (almost) guarantee assignment of that set when an eligible respondent was found.
- *** The batch 2 and 3 RSP values were calculated part-way through the survey, based on the latest penetration rates of the insurance products collected through this survey. Adjustment (by a factor of value from 0.2 to 2.5) was also made to help allocate the question sets.

Table A2 below shows the total number of respondents of each product-based question set.

Table A2: Product-based Question Set Sample Size

Product-based question set	Sample size
Life insurance in general and term life	14
Life insurance — whole life, universal life and endowment	170
Life insurance — ILAS	44
Medical insurance	147
Critical illness insurance	127
Deferred annuity	50
Immediate annuity	27
Personal accident insurance	67
Travel insurance	157
Home and fire insurance	57
Motor insurance	48
Pet insurance	110

Annex 6: Estimation of perception gap

Perception gap refers to the misalignment between the actual and self-assessed knowledge levels. The actual knowledge level is estimated by the correct responses out of the seven questions related to knowledge and skills outlined in Annex 3. The self-assessed knowledge level is measured by the options chosen for Q14 (How much do you think you know about insurance?). Perception gap is classified into three categories:

1. Under-confident

- If s/he answers 1 to 5 knowledge questions correctly, and s/he chooses "nothing at all" for Q14.
- If s/he answers 6 to 7 knowledge questions correctly, and s/he choose "not quite".
- If s/he answers 7 knowledge questions correctly, and s/he choose "average".

2. Over-confident

- If s/he answers 0 to 2 knowledge questions correctly, and s/he chooses "average" for Q14.
- If s/he answers 0 to 3 knowledge questions correctly, and s/he choose "decent amount of knowledge".
- If s/he answers 0 to 4 knowledge questions correctly, and s/he choose "a lot".

3. Aligned confidence and knowledge

- If s/he does not answer any knowledge questions correctly, and s/he chooses "nothing at all" for Q14.
- If s/he answers 2 to 5 knowledge questions correctly, and s/he choose "not quite".
- If s/he answers 3 to 6 knowledge questions correctly, and s/he choose "average".
- If s/he answers 4 to 7 knowledge questions correctly, and s/he choose "decent amount of knowledge".
- If s/he answers 5 to 7 knowledge questions correctly, and s/he choose "a lot".

Annex 7: Recent actions of the IA in upholding good market conduct and ethical practices

Market conduct

An efficient and high-functioning insurance market must be founded on mutual trust between buyers and providers of insurance. To build and continually reinforce that trust, insurance providers must adopt ethical business practices and keep themselves to high standards of integrity when conducting business with prospective or existing policyholders.

To this end, the insurance regulatory framework is founded on the principles of good conduct which require fair treatment of prospective or existing policyholders, acting in their best interests and placing them in a position where they are able to make informed decisions on their insurance purchases and other insurance matters.

The IA's day-to-day supervisory and regulatory work seeks to uphold these good conduct principles. Examples of our work include the following:

- **Standard setting** — Through issuing Codes of Conduct and Guidelines, the IA sets out standards and practices which intermediaries and insurers are required to follow in different situations to satisfy the principles of good conduct. These are continually clarified and supplemented through the circulars and other regulatory instruments issued by the IA. For example, in April 2022, the IA issued a circular clarifying and detailing the standards and practices expected on insurers and intermediaries when arranging and advising on long term insurance policies using premium financing. The IA's explanatory note on "regulated activities" issued in October 2021 also provides guidance, inter alia, on how the insurance regulatory framework applies to certain internet-based distribution channels to ensure the good conduct principles are upheld.
- **Onsite and offsite supervision** — Through inspection and offsite reviews of authorized insurers and licensed insurance intermediaries, the IA oversees the establishment and maintenance of robust governance and controls to maintain standards of good conduct across the market. Going forward, the IA will enhance its approach to conduct supervision by assessing the quality of the culture and ethics that insurers have established across their operations, agency forces and business practices.
- **Risk assessment and corporate governance** — The process of offsite reviews has recently been enhanced through the introduction of Own Risk and Solvency Assessment ("ORSA") process and the ORSA reports are submitted to the IA for review. This annual exercise requires authorized insurers to self-assess the full scope of their risk exposures in conducting business, the quality of their controls and governance to control these risks and how these are factored into their capital needs. Going forward, the ORSA will form an increasingly important part of the ongoing assessment of an insurer's governance, controls and business practices.

- **Complaints handling** — The IA views the quality of an authorized insurer’s process for handling policyholder complaints as a vital part of the way it conducts its business with policyholders and its culture for fair policyholder treatment. To this end, the IA has shared best practice principles for complaints handling — the IA handles directly complaints which raise issues of potential misconduct (i.e. non-compliance with the insurance regulatory framework). Each conduct-related complaint is assessed objectively and impartially following complete fact-finding before the IA reaches its conclusion. Proportionate action is taken on substantiated matters with close follow-up on the remediation of root causes. In 2021, the IA introduced several improvements to its complaint-handling processes, including partnering with the ICB to ensure the efficient allocation of conduct-related complaints (to the IA) and claims-related complaints (to the ICB). These improvements, coupled with the IA’s work on ensuring insurers to align their own complaints-handling processes with the IA’s best practice principles, saw the number of complaints the IA handled to increase by 22.7% in 2021 (1,550 in 2021 versus 1,263 in 2020). Going forward, the IA will continue to work with insurers on adherence to the IA’s best practice principles for handling complaints. The IA will also continue to share lessons from its complaints and regulatory work through publications such as “Conduct in Focus”, so as to empower consumers with knowledge of relevant pitfalls to avoid when buying insurance.
- **Training** — The IA now requires each individual licensed intermediary to complete 3 compulsory Continual Professional Development (“CPD”) hours on “Ethics or Regulation” as part of their compulsory annual 15 CPD hours. To reinforce this, the IA has developed its own E-CPD courses on ethical business practices for licensed insurance agents and licensed insurance brokers. Through these courses, the IA brings to life the principles of good conduct and the standards and practices in its Codes of Conduct, showing how they apply in everyday situations. The courses also include practical case studies based on real life intermediary-policyholder interactions encountered by the IA in its supervisory work. Going forward, the IA will continue to use these E-CPD courses (and other opportunities) to offer practical training to the insurance industry so that good conduct standards are upheld across the market.
- **Enforcement:** The IA reinforces the need for adherence to the principles of good conduct in the insurance regulatory framework, with the credible threat and deterrent of enforcement action when those requirements are contravened. In 2021/2022, the IA commenced its disciplinary work by taking its first 10 disciplinary actions (plus 93 disciplinary actions for failure to comply with the CPD requirements). Going forward, the IA will continue to focus its enforcement work on cases involving unethical business conduct, policyholder harm or systemic weaknesses in corporate governance and culture, so as to provide necessary deterrent and reinforce broad policyholder protection.

Market supervision

Trust between the insurance industry and prospective or existing policyholders is the cornerstone of a market with high integrity. The IA has put a lot of efforts into **strengthening observance of good conduct and ethical practices** such as acting in the best interests of clients and treating customers fairly. At the corporate level, there should be a culture of compliance that permeates those who work for or represent an insurer. Two projects in this respect are outlined below:

Mystery Shopping Programme (“MSP”)

- The IA, the Mandatory Provident Fund Schemes Authority (“MPFA”), and the Hong Kong Monetary Authority (“HKMA”) are mounting a joint MSP on selling practices of Qualifying Deferred Annuity Policies and Mandatory Provident Fund Tax-Deductible Voluntary Contributions, focusing on areas such as risk profiling, needs analysis, information disclosure, product documentation and suitability of recommendations.

Premium Financing

- The IA and the HKMA also carried out a joint inspection on premium financing activities in late-2020, the findings of which led to issuance of a circular on 1 April 2022 to clarify regulatory expectations under the existing codes and guidelines to improve customer awareness, protection and outcome.

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