

## Need for harmonization of disclosure standards: Jayant Pai

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*"Continuity gives us roots; change gives us branches, letting us stretch and grow and reach new heights," - Pauline R. Kezer*

Although several well meaning independent financial advisors are crying out ad nauseum that insurance products are meant for protection and not for investment purposes; their clients are apparently unwilling to listen.

That is why investment oriented policies continue to garner a large share, both in number of policies sold as well as in premium collections.

As this is a reality which cannot be overlooked, I think that there is an urgent need for life insurance companies to increase the quality and frequency of their portfolio related as well as investment performance related disclosures.

Today, mutual funds are subject to virtually a daily scrutiny from investors, the regulator and the media, while insurance companies get away by behaving in a capricious manner.

I perused through the websites of four randomly chosen life insurance companies. They were a study in contrast. In the case of HDFC Standard Life Insurance, though the website mentions that data is updated up to Aug. 31, 2010, a random sample of the policy portfolios displayed data up to July 31, 2010 only.

SBI Life Insurance gave good comparisons between each fund's performances vis-a-vis their respective (clearly mentioned) benchmarks but did not disclose their portfolios at all.

In the case of Birla Life Insurance, details regarding portfolios and relative performances were given, but the name of the respective benchmark for each scheme was not mentioned.

Reliance Life Insurance disclosed the most, including data on

each fund's standard deviation, sharpe ratio, etc.

The inconsistency of disclosure amongst the players is disconcerting. As the industry matures, it is vital that disclosure standards be harmonized.

Standardized templates from the Insurance Regulatory Development Authority (IRDA) may be the best way to achieve this. Such standardization will facilitate better comparison between the companies.

Although, I have been asked to write about one change, I cannot resist mentioning another sorely needed improvement, which I believe will not be difficult to implement. Today, we have panoply of names for life insurance schemes.

In the case of many policies, the name does not throw light on the basic nature or characteristic of the policy i.e. whether it is a term plan, endowment, money-back, unit-linked plan (ULIP), etc. This problem is especially severe in the case of the older life insurance companies.

I suggest that after the name, the basic category to which the policy belongs should be clearly mentioned in brackets to facilitate easy understanding.

For instance, LIC Jeevan Anurag (Children's Plan), LIC Jeevan Anand (Endowment Assurance Plan) or SBI Life - Smart Performer (ULIP).

*\*\*The author, Jayant Pai , is CFP and Vice-President of Parag Parikh Financial Advisory Services.*

