

**Guidelines on remuneration of Chief Executive Officer / Whole-time Director/
Managing Director of Insurers**

The remuneration payable to Chief Executive / Whole-Time Director / Managing Director is governed by the provisions of Section 34A of the Insurance Act, 1938. The Section 34A provides as under

34A. (1) In the case of an insurer,—

- (a) no amendment made after the commencement of the Insurance (Amendment) Act, 1968, of any provision relating to the appointment, reappointment, termination of appointment or **remuneration of a managing or whole-time director, or of a manager or a chief executive officer**, by whatever name called, whether that provision be contained in the insurer's memorandum or articles of association, or in an agreement entered into by him, or in any resolution passed by the insurer in general meeting or by his Board of directors shall have effect unless approved by the Authority;*

- (b) no appointment, re-appointment or termination of appointment, made after the commencement of the Insurance (Amendment) Act, 1968, of a managing or whole-time director, or a manager or a chief executive officer, by whatever name called, shall have effect unless such appointment, reappointment or termination of appointment is made with the previous approval of the 2[Authority].*

Explanation.—For the purposes of this sub-section, any provision conferring any benefit or providing any amenity or perquisite, in whatever form, whether during or after the termination of the term of office of the manager or the chief executive officer, by whatever name called, or a managing or whole-time director, shall be deemed to be a provision relating to his remuneration.

(2) Nothing contained in sections 268 and 269, the proviso to sub-section (3) of section 309, sections 310 and 311, the proviso to sections 387, and section 388 (in so far as section 388 makes the provisions of sections 310 and 311 apply in relation to

the manager of a company) of the Companies Act, 1956 (1 of 1956), shall apply to any matter in respect of which the approval of the I[Authority] has to be obtained under sub-section (1).

(3) No act done by a person as a managing or whole-time director or a director not liable to retire by rotation or a manager or a chief executive officer, by whatever name called, shall be deemed to be invalid on the ground that it is subsequently discovered that his appointment or re-appointment had not taken effect by reason of any of the provisions of this Act; but nothing in this sub-section shall be construed as rendering valid any act done by such person after his appointment or re-appointment has been shown to the insurer not to have had effect.

As evident from the above, any provisions relating to remuneration of Chief Executive Officer / Whole-Time Director/ Managing Director / Manager requires prior approval of the Authority. Authority in order to streamline the process of the approval had issued circular no. 031 /IRDA /CIR/ COMPLIANCE/ AUG-2007. The circular prescribes the manner of seeking approval for the appointment and remuneration of the CEO/WTD, by what so ever name called. The form C of the circular covers the break-up of remuneration payable to CEO/ WTD/ MD.

The Authority has not laid down any prescription/guidelines to the insurers on remuneration of MD/ CEO/ WTD. In effect, there are no limits imposed by IRDA on the remuneration structure barring the fact that remuneration beyond Rs. 1.50 crore should be debited to Shareholders' Fund.

In light of the above, it is felt that there is an immediate need to lay down guidelines on compensation of the CEO / MD/ WTD which needs to be kept in view while processing the remuneration application. IN view of the above, the Authority hereby lays down the following framework on compensation of the CEO/ MD/ WTD drawing upon the global best practice as also the framework in place in the financial sector in the domestic market.

- 1. The guidelines shall be applicable for remuneration payable to CEO / WTD/ MD / Manager of Private Insurers. Insurers should formulate and adopt a comprehensive compensation policy covering all their employees and**

conduct annual review thereof. The policy should cover all aspects of the compensation structure such as fixed pay, perquisites, bonus, guaranteed pay, severance package, stock, pension plan, gratuity, etc. taking into account these guidelines.

The process of framing / review the policy should be completed by March, 2016 for implementation from the financial year 2016-17.

2. Insurers should ensure that for the MD/ WTDs / CEOs:
 - i. compensation is adjusted for all types of risk,
 - ii. compensation outcomes are symmetric with risk outcomes, and
 - iii. Compensation payouts are sensitive to the time horizon of the risk.
 - iv. The mix of cash, equity and other forms of compensation must be consistent with risk alignment.

3. A wide variety of measures of credit, market and liquidity risks may be used by the Insurers in implementation of risk adjustment. The risk adjusted methods should preferably have both quantitative and judgmental elements. The following are the minimum risks which needs to be taken into account
 - i. Persistency Risk
 - ii. Solvency
 - iii. Grievance Redressal
 - iv. Expenses of Management
 - v. Claim settlement
 - vi. Claim repudiations
 - vii. Overall Compliance status
 - viii. Overall financial position such as Net-Worth Position of Insurer, Asset Under Management (AUM) of Policyholders etc.

4. *Fixed pay* : Insurers are required to ensure that the fixed portion of compensation is reasonable taking into account all relevant factors.

5. *Variable pay composition and deferral*
 - i. While designing the compensation arrangements it should be ensured that there is a proper balance between fixed pay and variable pay. At

higher levels of responsibility the proportion of variable pay may be higher.

- ii. The variable pay could be in cash, stock linked instruments or mix of both. However, Employees Stock Option Plan (ESOP) may be excluded from components of variable pay.
- iii. The deterioration in the financial performance of the Insurer and the other parameters specified at para 3 should generally lead to a contraction in the total amount of variable remuneration paid.
- iv. Where the variable pay constitutes a substantial portion of the total pay, i.e. 50% or more, an appropriate portion of the variable pay, say 40 % to 60 % must be deferred over a period of not less than of 5 years. The Insurer may define what is “substantial” in its compensation policy.
- v. There should be proper balance between the cash and stock / share components (other than ESOP) in the variable pay in case the variable compensation contains stock or share linked instruments (other than ESOP).

6. ESOP

ESOP is kept outside the computation of the total compensation but the extent of ESOP should be reasonable. The details of ESOP granted should also be disclosed in terms of the disclosure requirements stipulated.

In case the shares of the insurance company are offered as ESOPs to Managing Director / Chief Executive Officer / Principal Officer /Whole Time Director, then:

- i. If the CEO/WTD/MD/Principal officer is one of the promoters or directly related to the promoters, then the same will be governed by the provisions of SEBI (Issue of Sweat Equity) Regulations, 2002 except those relating to pricing of shares. The manner of pricing of shares shall be disclosed upfront to the Authority.

- ii. In other cases, the same will be governed by the SEBI's ESOP guidelines as amended by the SEBI from time to time.

7. *Sweat Equity*: In case the shares of the insurance company are issued as Sweat Equity, then the same will be governed by the provisions of the Sweat Equity Regulations issued by SEBI except for the guidelines relating to pricing of shares as at 6 (i) above

8. *Variable pay – timing*

In case of deferral arrangements of variable pay, the deferral period should not be less than five years. Compensation payable under deferral arrangements should vest no faster than on pro rata basis.

9. *Claw back*

- i. In case of deferral compensation, in the event of any negative trend in the parameters specified in para 3 and /or the relevant line of business in any year during the vesting period, any unvested portions are to be clawed back. However, while exercising such provisions due consideration may be given to the actual / realized performance of the insurer.
- ii. For legal enforceability, the claw back system shall be driven by observable and verifiable measures of risk outcomes. Insurers may put in place appropriate mechanism to incorporate claw back mechanism in respect of variable pay, linked to such parameters as are defined at (3) above.

10. *Guaranteed bonus*

- i. Guaranteed bonuses are not consistent with sound risk management or the pay-for performance principles and should not be part of compensation plan. Therefore, joining / sign on bonus should only occur in the context of hiring new staff and be limited to first year.

- ii. However, in case such guarantees are built in, payment thereof should be in the form of ESOPs only since payments in cash upfront would create perverse incentives and promote undue risk taking.
- iii. Insurers should not grant severance pay other than accrued benefits (gratuity, pension, etc.) to MD/ WTDs/CEOs.

11. Others

- i. While framing the remuneration policy, insurers shall also ensure that there is proper succession plan mainly for CEO/ MD/ WTD/ KMPs.
- ii. The succession plan shall also include the superannuation age keeping in view the best industry practices.

12. Disclosure and engagement by stakeholders : the following disclosures are mandated as a part of Corporate Governance Guidelines in Annual Report

- Qualitative
 - Information relating to the design and structure of remuneration processes and the key features and objective of remuneration policy
 - Description of the ways in which current and future risks are taken into account in the remuneration processes.
 - Description of the ways in which the insurer seek to link performance during a performance measurement period with levels of remuneration
- Quantitative disclosure :
 - Number of WTD/ CEO/ MD and key management employees having received a variable remuneration award during the financial year
 - Number and total amount of sign on awards made during the financial year
 - Details of guaranteed bonus, if any , paid as joining / sign bonus

- Total amount of outstanding deferred remuneration, split into cash, shares and share linked instruments and other forms.
- Total amount of deferred remuneration paid out in the financial year
- Breakdown of amount of remuneration awards for the financial year to show fixed and variable, deferred and non-deferred.

Accounting and renewal of remuneration:

- No revision in remuneration shall be permitted till the expiry of one year from the date of earlier approval.
- In case the annual remuneration of the MD & CEO exceeds Rs.1.50crore (including all perquisites plus bonuses etc., by whatsoever names), such excess shall be borne by the Shareholders.
- No other remuneration shall be paid to WTD/ MD/ CEO by any of the promoter or for the group companies of the promoters companies.

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