Annexure-A

Insurance Regulatory and Development Authority of India (Remuneration of Non-Executive Directors of Insurers) Guidelines, 2023

1. Background:

i. Non-executive directors of the company play a crucial role to the independent functioning of the board. They bring in external and wider perspective to the decision-making by the board. They provide leadership and strategic guidance, while maintaining objective judgment. They provide an independent view on the running of the business, governance and boardroom best practices. They oversee and constructively challenge management in its implementation of strategy within the Group's system of governance and the risk appetite set by the Board.

ii. In view of the increased demands on non-executive directors' participation in board and committee meetings and the higher responsibilities they are expected to bear in the interest of higher level of excellence in corporate governance and in order to enable Insurance companies to attract and retain professional non-executive directors, it is essential that such directors are appropriately compensated.

2. Applicability

i. These guidelines shall be applicable for remuneration payable to Non-Executive Director of private sector insurers, from Financial Year 2023-24.

ii. Insurer shall complete the process of framing / reviewing the remuneration policy based on these guidelines within 3 months of the issuance of these Guidelines.

3. Remuneration Policy:

i. The Board of Directors, in consultation with its Nomination and Remuneration Committee, shall formulate and adopt a comprehensive remuneration policy for the Non-Executive Directors. While formulating such policy, the Board shall ensure compliance with the provisions of the Companies Act, 2013, as amended from time to time.

ii. The Board shall ensure and document that in structuring, implementing and reviewing the remuneration policy, the decision making process identifies and manages conflicts of interests. Members of the Board shall not be placed in a position of actual or perceived conflicts of interests in respect of remuneration decisions.

iii. Total remuneration, however, shall not exceed Rupees Twenty lakh per annum for each Non-Executive director. If the Chairperson of the company is a Non-Executive Director, the remuneration may be decided by the Board of Directors of the insurer and, the remuneration policy shall specify the details of the remuneration and incentives to be paid to him/ her.

iv. Non-Executive Directors shall not be eligible for any equity-linked benefits.

4. **<u>Sitting fees and reimbursement of expenses:</u>**

In addition to the directors' remuneration mentioned in para 2 (iii) above, the Insurer may pay sitting fees to the non-executive directors and reimburse their expenses for participation in the Board and other meetings, subject to compliance with the provisions of the Companies Act, 2013.

5. **<u>Age limit and tenure of Non-Executive Directors:</u>**

i. The maximum age limit for Non-Executive Directors, including the Chairperson of the board, shall be 75 years and after attaining the age of 75 years no person shall continue on the Board of an insurer.

Provided that in cases where the Chairperson/ Non-Executive Director has already attained the age of 75 years as on the date of issue of these guidelines, such insurers shall appoint new incumbent in place of such Chairperson/ Non-Executive Director within a period of one year .

ii. An Independent Director may be appointed for a term of up to five consecutive years on the Board of an insurer, and shall be eligible for re-appointment for the second term on passing of a special resolution by the insurer. No independent Director shall hold office for more than two consecutive terms, beyond a period of

10 years. After completion of 10 years such independent director shall be eligible for re-appointment only after a cooling-off period of at least three years.

Explanation: the tenure of the Independent Directors on the board of insurers as on the date of issue of these guidelines shall be taken into account. If a director has already completed a period of ten years on the date of issue of these guidelines, such insurers shall appoint new incumbent in place of such director(s) within a period of one year.

6. Disclosures:

Insurers shall disclose the amount of remuneration paid to each Non-Executive/ Independent directors, in the Notes to the Accounts forming part of Annual Financial Statements. In case no remuneration is paid during a year, the same shall be specifically disclosed.

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Annexure-B

Insurance Regulatory and Development Authority of India (Remuneration of Key Managerial Persons of Insurers) Guidelines, 2023

1. Applicability

i. These guidelines shall be applicable for remuneration payable to Key Managerial Persons (KMPs) of private sector insurers, from Financial Year 2023-24.

ii. Insurer shall complete the process of framing / reviewing the remuneration policy based on these guidelines within 3 months of the issuance of these Guidelines.

2. Definitions

i. "Remuneration" means any money or its equivalent given or passed on to a KMP for the services rendered by him/her; and includes perquisites as defined under the Income-tax Act, 1961.

ii. "Key Managerial Persons" (KMPs) means as defined in the IRDAI (Registration of Indian Insurance Companies) Regulations, 2022.

iii. "Share linked instruments" means (i) employee stock option schemes;(ii) employee stock purchase schemes; and (iii) stock appreciation rights schemes, for the purpose of these guidelines.

3. Remuneration Policy

i. Insurers shall formulate and adopt a comprehensive Board approved remuneration policy covering all the Key Managerial Persons. The policy shall not encourage Key Managerial Persons to take inappropriate or excessive risks for their performance based variable remuneration. The Board shall ensure and document that in structuring, implementing and reviewing the remuneration policy, the decision making process identifies and manages conflicts of interests. Members of the Board shall not be placed in a position of actual or perceived conflict of interests with respect of remuneration decisions.

ii. The policy shall cover all aspects of the remuneration structure including Fixed Pay including allowances, perquisites, retirement Benefits, Variable Pay including incentives, bonus, share linked instruments, Joining / Sign on bonus, etc. All the details of the remuneration policy shall be incorporated in a single document. The remuneration policy shall be reviewed annually by the Nomination and Remuneration Committee.

iii. Nomination and Remuneration Committee of the insurer in consultation with the Risk Management Committee shall make a coordinated effort to have an integrated approach to the formulation of the remuneration policy. It shall ensure that,

a. Remuneration is adjusted for all types of risk,
b. Remuneration outcomes are symmetric with risk outcomes,
c. Remuneration payouts are sensitive to the time horizon of the risk, and
d. The mix of cash, equity and other forms of remuneration are consistent with risk alignment.

iv. 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 shall preferably have both quantitative and qualitative elements.

v. The minimum parameters which shall be taken into account for determination of performance assessment of all KMPs for payment of variable pay or incentives are:

a. Overall financial soundness such as Net-Worth position, solvency, growth in AUM, Net Profit, etc.;
b. Compliance with Expenses of Management Regulations;
c. Claim efficiency in terms of settlement and outstanding;
d. Improvement in grievance redressal status;
e. Reduction in Unclaimed Amounts of policyholders;
f. Persistency- 37th Month to 61st Month (in case of life insurers); Renewal Rate in case of Non-Life insurers and Stand Alone Health insurers; and
g. Overall Compliance status with respect to all applicable laws.

The above parameters shall constitute at least 60% of the total weightage in the performance assessment matrix of MD/CEO/WTDs; and at least 30% of the total weightage in the performance assessment matrix of other KMPs individually. The weightage for each of the parameters may be configured suitably for MD/CEO/WTDs and other KMPs depending on their respective roles. Insurers may define additional parameters also which shall be in line with the business plan of the Insurer. These parameters shall be spelt out in the remuneration policy.

vi. Apart from the performance assessment for payment of incentives and variable pay, these parameters shall also form the basis for revision of the Fixed Pay.

4. Annual Remuneration

Annual Remuneration shall be the aggregate of Fixed Pay (including monetary and non-monetary perquisites) and Variable Pay, for a particular financial year.

5. Fixed pay

Insurers are required to ensure that the fixed portion of remuneration is reasonable taking into account all the relevant factors including adherence to statutory requirements. Fixed Pay shall include Basic pay, allowances, perquisites, contribution towards superannuation/retirement benefits and all other fixed items of compensation.

6. Variable pay

i. Variable pay shall be in the form of cash and/or share linked instruments. All share linked benefits where the ultimate payout is in the form of cash such as Cash-Linked Stock Appreciation Rights (CSARs), Phantom Stocks etc., shall be treated as cash benefit.

ii. Variable pay includes incentives, bonus, share linked instruments etc. The Variable pay shall be performance-based using measures of individual, unit or group performance that do not create incentives for inappropriate risk taking. Performance based incentives shall be aligned with long term value creation and the time horizon of risks to which the insurer may be exposed. Any variable pay or performance incentive shall be paid/ granted to any KMP only once during a financial year.

iii. Variable Pay shall be at least 50% of the Fixed Pay for the corresponding period and shall not exceed 300% of the Fixed Pay. Where variable pay is up to 200% of the fixed pay, a minimum of 50% of the variable pay shall be via non-cash instruments. The same limit would be 70%, in case the variable pay is above 200% of the fixed pay.

iv. A minimum of 50% of the total variable pay must invariably be under deferral arrangements and the deferral period shall be a minimum of three years. The first such vesting shall accrue after one year from the commencement of the deferral period. Vesting shall be no faster than on a pro rata basis and shall not take place more frequently than on a yearly basis to ensure a proper assessment of risks before the application of ex-post adjustments. No deferment of variable pay shall be required for an amount of up to Rs Twenty-Five lakhs for a particular year.

v. In case of an insurer which is not listed, the fair value of the equity shares certified by a Category 1 merchant banker registered with SEBI shall be considered for the purpose of benefit calculation. The insurer which is not listed may issue the ESOPs of their listed promoter company provided that such cost shall be borne by the respective insurer only.

vi. In case of an insurer which is not listed, the total number of ESOPs granted in a year shall not exceed 1% of the paid up capital of the insurer. The total number of ESOPs issued, granted, vested or outstanding at any point of time shall not exceed 5% of the paid- up capital of any insurer.

vii. For a listed insurer, Share-Linked Instruments shall be reckoned at the fair value as on the date of grant. The norms for grant, valuation and disclosure of share-linked instruments shall be framed by the insurers in conformity with the relevant statutory provisions and applicable guidelines and shall form part of the insurers' remuneration policy.

viii. KMPs of insurers shall not be issued/granted any sweat equity shares.

ix. The deterioration in the financial performance of the Insurer and the other defined parameters as per the remuneration policy shall lead to a contraction in the total amount of variable pay which may even be reduced to zero.

x. In case of retirement / resignation / death of a KMP(s) prior to the deferral period, the deferred pay may be paid as per the employment contract agreed between the insurer and the KMPs. In case of reappointment on retirement, the deferred pay due at the time of retirement (i.e., prior to reappointment) shall be paid only for the respective years to which it is originally deferred.

xi. In case of termination from the services as per the directives of court / tribunal / other competent Authorities, or termination by the insurer in case of fraud/criminal offences etc., the deferred pay shall be forfeited.

7. Malus and Claw-back:

i. Variable Pay shall be subject to Malus and Claw-back provisions and these provisions shall also form part of the Board approved remuneration policy. In case of deferred remuneration, in the event of any negative trend in the defined parameters and/or the relevant line of business in any year during the vesting period, unvested / unpaid portions of deferred variable pay shall be reduced or cancelled as per the assessment. However, while exercising such provisions, due consideration may be given to the actual / realized performance of the insurer.

ii. A malus arrangement permits the insurer to prevent vesting of all or part of the amount of a deferred remuneration. Malus arrangement does not reverse vesting after it has already occurred. A claw-back, on the other hand, is a contractual agreement between the KMP and the insurer in which the KMP agrees to return previously paid or vested remuneration to the insurer under certain circumstances.

iii. Insurers are required to put in place appropriate modalities to incorporate malus / claw-back mechanism in respect of Variable Pay, taking into account relevant statutory and regulatory stipulations as applicable. The remuneration policy of the insurer shall confirm existence of Malus and Claw-back clauses in the employment contract and it shall identify a representative set of situations, which require insurers to invoke the malus and claw-back clauses which may be applicable to the entire Variable Pay. When setting criteria for the application of malus and claw-back, insurers shall also set a period during which malus or claw-back can be applied, covering at least the deferral period. Gross negligence, integrity breach, materially inaccurate financial statements due to the result of misconduct including fraud, poor compliance in respect of corporate governance and regulatory matters, etc., by the KMPs shall invite immediate and prompt action of the board and the management.

iv. For legal enforceability, the malus and claw-back system shall be driven by observable and verifiable measures of risk outcomes. Insurers may shall put appropriate mechanism in place to incorporate malus and claw-back provisions in respect of variable pay linked to the defined parameters, in the employment contracts of all KMPs.

8. Age and tenure of MD/ CEO/ WTD

i. Subject to the statutory approvals required from time to time, the post of the MD & CEO or WTD shall not be held by the same incumbent for a continuous period of more than 15 years. Thereafter, the individual shall be eligible for re-appointment as MD & CEO or WTD in the same insurer, if considered necessary and desirable by the board, after a cooling off period of at least one year, subject to meeting other applicable conditions.

ii. No person shall continue as MD & CEO or WTD with an insurer beyond the age of 70 years. Within the overall limit of 70 years, as part of their internal policy, individual insurer's Boards are free to specify a lower retirement age for the WTDs, including the MD & CEO.

iii. If the MD & CEO or WTD is appointed by a promoter/ major shareholder, then he/she shall not hold the said posts for a continuous period of more than 12 years. However, the Authority may, on an application made to it by the concerned insurer giving substantial reasons for the same, permit such MD & CEO or WTDs to hold office up to 15 years.

iv. A promoter/shareholder cannot hold a whole time position in the insurer. However, this condition is not applicable in case where an employee becomes an shareholder by virtue of shares received through ESOPs during the course of employment.

v. For the purpose of compliance with the above stipulations, the tenure of the MD/ CEO/ WTD of insurer as on the date of issue of these guidelines shall also be taken into account. If a director has already completed a period of twelve years/ fifteen years as the case may be, on the date of issue of these guidelines, such insurers shall appoint the new incumbent in place of such director(s) within a period of one year from the date of issue of these Guidelines.

9. <u>Guaranteed bonus, Joining / Sign on Bonus and Severance Pay</u>

i. Guaranteed bonuses are inconsistent with sound risk management or the pay-for performance principles and hence shall not be part of remuneration plan.

ii. Joining / sign on bonus shall only occur in the context of hiring new personnel and be limited to the first year of employment. Such bonus will neither be considered as a part of fixed pay nor as a part of variable pay.

iii. Insurers shall not grant Severance Pay other than accrued benefits like gratuity pension, etc., to Key Managerial Persons except in cases where it is mandatory under any applicable provision of the statute. It is clarified that Severance Pay does not include notice period pay.

10. <u>Disclosures:</u>

The following disclosures are mandated in the notes to the accounts forming part of the Annual Report.

i. <u>Qualitative Disclosures</u>

a. Information relating to the composition and mandate of the Nomination and Remuneration Committee.

b. Information relating to the design and structure of remuneration policy and the key features and objective of remuneration policy.

c. Description of the ways in which current and future risks are taken into account in the remuneration policy. It shall include the nature and type of the key measures used to take account of these risks.

d. Description of the ways in which the insurer seeks to link performance, during a performance measurement period, with levels of remuneration.

ii. Quantitative disclosures

a. Complete details of remuneration awarded for the financial year to MD/CEO/WTD mentioning Pay, Allowances and Perquisites, Variable Pay including share-linked benefits, Joining / Sign on Bonus, accrued benefits like gratuity, pension, if any, etc. classifying the same under fixed and variable, deferred and non-deferred as applicable, the remuneration debited to Revenue Account (Policyholders' Account) and Profit and Loss Account (Shareholders Account). The disclosure in the note to accounts shall be made as per the format provided (Annexure I).

b. Details of outstanding deferred remuneration of MD/CEO/WTD at the end of the financial year mentioning name, designation, financial year (remuneration pertaining to), nature of remuneration and the amount outstanding. The disclosure has to be made as per the format provided (Annexure II).

The insurers shall ensure compliances as specified in the Companies Act and SEBI regulations/guidelines, as applicable.

11. Accounting:

i. In case the Annual Remuneration of MD/CEO/WTD and other KMPs individually exceeds Rupees Four Crore, such excess shall be borne by the shareholders and debited to Profit and Loss Account.

ii. Liability in the respective books of accounts shall be created in respect of deferred remuneration of the reporting financial year.

iii. Deferred remuneration pertaining to previous financial years and paid in the reporting financial year shall not be debited to Revenue Account / Profit and Loss Account as the same shall be adjusted against the liability outstanding in the books of accounts at the beginning of the year.

iv. In case of forfeiture of deferred pay, the corresponding liability outstanding shall be reduced accordingly.

v. In case of recovery of earlier paid remuneration, if any, the same shall be credited to Revenue Account / Profit and Loss Account, as the case may be.

12. Additional information required

Following additional information has to be provided to the IRDAI on annual basis by 30th June of the next financial year in the prescribed formats

i. Complete details of remuneration awarded for the financial year to each KMP mentioning Pay, Allowances and Perquisites, Variable Pay including share-linked Benefits, Joining / Sign on Bonus, accrued benefits like gratuity, pension, if any, etc. classifying the same under fixed and variable, deferred and non-deferred as applicable, the remuneration debited to Revenue Account (Policyholders' Account) and Profit and Loss Account (Shareholders Account) in Annexure I.

ii. Details of outstanding deferred remuneration of KMPs at the end of the financial year mentioning name, designation, financial year (remuneration pertaining to), nature of remuneration and the amount outstanding in Annexure II.

iii. Complete details of reduced / cancelled / recovered remuneration of MD/CEO/WTD/KMPs during the year as per the malus and claw-back provisions of employment, mentioning name, designation, nature of original pay, amount reduced / cancelled / recovered and reason for the same. The disclosure shall be made as per the format provided in Annexure III

iv. The formats (Annexure I to Annexure III) shall be certified by the CFO of the insurer. `

13. Approval and Renewal of Remuneration:

i. Appointment/Re-appointment or modification in the remuneration, if any, of MD/CEO/WTDs requires prior approval of the Authority in terms of Section 34 A of the Insurance Act, 1938.

ii. In respect of remuneration of the MD/CEO/WTDs, no revision shall be permitted by the IRDAI before the expiry of one year from the date of earlier approval.

iii. The cost of remuneration paid to MD/CEO/WTD/KMPs shall be borne by the respective insurer only.

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Annexure I

Remuneration and other payments made during the Financial Year to MD/CEO/WTD

(Amount in Rs. Lakhs)

Sl. No.	Name of the MD/CEO/ WTD	Designation	Fixed Pay			Variable Pay						Total of Fixed and Variable Pay (c)+(f)	Amount Debited to Revenue A/c	Amount Debited to Profit and Loss A/c	Value of Joining / Sign on Bonus	Retirement benefits like gratuity, pension, etc. paid during the year	Amount of deferred remuneration of earlier years paid/settled during the year
			Pay and Allowances (a)	Perquisites, etc. (b)	Total (c)=(a)+(b)	Cash components (d)		Non-cash components (e)		Total (f)=(d)+(e)							
						Paid	Deferred	Settled	Deferred	Paid/ Settled	Deferred						
1																	
2																	
3																	
..																	
..																	
	TOTAL																

[signature]

Annexure II

Details of Outstanding Deferred Remuneration of MD/CEO/WTD as at ____________________

Sl. No.	Name of the MD/CEO/WTD	Designation	Remuneration pertains to Financial Year	Nature of remuneration outstanding	Amount Outstanding (Rs. in Lakhs)
1					
2					
3					
..					
..					
	TOTAL				

Date:
Place:

Signature of CFO

Name of the insurer: Date: Annexure III

Details of Remuneration Reduced / Cancelled / Recovered in respect of KMPs during the Financial Year ____________

Sl. No.	Name of the KMP	Designation	Nature of Remuneration	Whether Reduced / Cancelled / Recovered	Remuneration Reduced / Cancelled / Recovered (Rs. In Lakhs)	Reason for Reduction / Cancellation/ Recovery of the Remuneration
1						
2						
3						
..						
..						
..						
..						
	TOTAL					

Date:
Place:

Signature of CFO