



भारतीय बीमा विनियामक और विकास प्राधिकरण  
INSURANCE REGULATORY AND  
DEVELOPMENT AUTHORITY OF INDIA

Ref.: IRDA/F&A/GDL/CG/100/05/2016

Date: 18<sup>th</sup> May, 2016

### **Guidelines for Corporate Governance for insurers in India**

The Authority had initially issued Guidelines on Corporate Governance for insurance companies vide circular dt. 5th August, 2009. The Authority had also issued separate guidelines for appointment/ reappointment and remuneration of MD/CEO/ WTD as well as other Key Management Persons (KMPs), as also the Appointment of statutory auditors of insurers through various circulars.

In view of the extensive changes to the governance of companies brought about by the Companies Act, 2013, it was decided to review the various guidelines of the Authority relating to the governance of insurance companies. After due consultation with the industry representatives and other stakeholders and professionals, the Authority has drawn out the revised Guidelines on Corporate Governance for insurance companies. The revised guidelines combine the stipulations regarding the Corporate Governance practices, appointment of MD/ CEO/ WTD and other KMPs as well as the appointment of statutory auditors of insurers. These are applicable from FY 2016-17 onwards. These guidelines shall be applicable to all insurers granted registration by the Authority except that:

- (i) reinsurance companies may not be required to have the Policyholders' Protection Committee; and
- (ii) branches of foreign reinsurers in India may not be required to constitute the Board and its mandatory committees as indicated herein.

All insurers are hereby advised to ensure compliance with the guidelines.

(V R Iyer)

Member-F&I



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## **Corporate Governance Guidelines for Insurers in India**

**2016**

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# **CORPORATE GOVERNANCE GUIDELINES FOR INSURANCE COMPANIES**

## **1. General**

**1.1** Corporate Governance is understood as a system of financial and other controls in a corporate entity and broadly defines the relationship between the shareholders, Board of Directors and management. In case of the financial sector, where the entities accept public liabilities for fulfillment of certain contracts, the relationship is fiduciary with enhanced responsibility to protect the interests of all stakeholders. The Corporate Governance framework should clearly define the roles and responsibilities and accountability within an organization with built-in checks and balances. The importance of Corporate Governance has received emphasis in recent times since poor governance and weak internal controls have been associated with major corporate failures. It has also been appreciated that the financial sector needs to have a more intensive governance structure in view of its role in the economic development and since the safety and financial strength of the institutions are critical for the overall strength of the financial sector on which the economic growth is built upon. As regards the insurance sector, the regulatory responsibility to protect the interests of the policyholders demands that the insurers have in place, good governance practices for maintenance of solvency, sound long term investment policy and assumption of underwriting risks on a prudential basis. The emergence of insurance companies as a part of financial conglomerates has added a further dimension to sound Corporate Governance in the insurance sector with emphasis on overall risk management across the structure and to prevent any contagion and to ensure financial stability.

**1.2** The Insurance Regulatory and Development Authority of India (IRDAI) has outlined in general terms, governance responsibilities of the Board in the management of the insurance functions under various Regulations notified by it covering different operational areas. It has now been decided to put them together and to issue the following comprehensive guidelines for adoption by an Insurer. In the light of changes brought in by the Companies Act, 2013, the existing guidelines on Corporate Governance practices of insurers are being revised as below. These revised Guidelines shall replace the existing guidelines on Corporate Governance issued by the Authority and shall take effect from FY 2016-17. These guidelines shall also supercede the Guidelines on Reporting of Key Persons dt. 9<sup>th</sup> October, 2013 and stipulations regarding appointment of Statutory Auditors issued vide Circulars dt.25.07.2005 and 22.04.2009.

## **2. Objectives**

**2.1** The objective of the guidelines is to ensure that the structure, responsibilities and functions of Board of Directors and the management of the company recognize the expectations of all stakeholders as well as those of the regulator. The structure should take steps required to adopt sound and prudent principles and practices for the governance of the company and should have the ability to quickly address issues of non-compliance or weak oversight and controls. These guidelines therefore amplify on certain issues which are covered in the Insurance Act, 1938 and the regulations framed thereunder and include measures which are additionally considered essential by IRDAI for adoption by insurers.

**2.2** The guidelines accordingly address the various requirements broadly covering the following major structural elements of Corporate Governance in insurance companies:-

- Governance structure
- Board of Directors
- CEO
- Key Management functions
- Role of Appointed Actuaries
- External audit – Appointment of Statutory Auditors
- Disclosures
- Relationship with stakeholders
- Interaction with the Supervisor
- Whistle blower policy

**2.3** In these guidelines, the reference to the “Board” would apply to the “Board of Directors” and the term “Key Management Persons” shall be as defined in these guidelines.

### **3. Significant Owners, Controlling Shareholders – Role of Board**

**3.1** IRDAI prescribes a minimum lock-in period of 5 years from the date of certificate of commencement of business of an insurer (R3) for the promoters of the insurance company and no transfer of shares of the promoters is permitted within this period without the specific approval of the Authority.

**3.2** Section 2 (7A) of the Insurance Act, 1938 has prescribed the ceiling of Foreign Investment in Indian Insurance Companies at 49%, subject to the Indian Insurance Company being Indian owned and controlled. The manner of computation of Foreign Investment to satisfy this requirement is specified in the Rules and Regulations issued by the Government and IRDAI from time to time.

Explanation to sub-clause (b) of clause 7A of Sec 2 of the Insurance Act, 1938, which defines ‘Indian Insurance Company’ provides that the expression “control” shall include the right to appoint a majority of directors or to control the management or policy decisions including by virtue of their shareholding or management rights or shareholders agreements or voting agreements.

Therefore, it has to be demonstrated through express provisions in the agreements between the promoters/ shareholders and/ or the Articles of Association of the Insurance companies that the ownership as well as control does not lie with foreign entities but ultimately rests with resident Indian citizens at all times.

**3.3** The Insurance Act, 1938 stipulates prior approval of the IRDAI for registration/transfer of shares, exceeding one per cent and /or which involve holding of share capital, after such transfer, in excess of 5 per cent of the paid-up capital of the company. The Board of Directors of the

company shall ensure that the registration of shares is in compliance with the above provisions of the Act, Regulations and circulars issued by IRDAI from time to time.

### **3A. Conflict of Interest – Role of Board**

1. Where it is proposed to enter into a contract or arrangement with Related parties as defined in Companies Act 2013, the disclosures by Directors and necessary approvals as required under Sections 184, 177(4)(iv) and 188 of Companies Act 2013, read with the relevant Rules thereunder, shall be obtained. Adequate systems, policies and procedures to address potential conflicts of interest and compliance with the provisions of Companies Act, 2013 need to be established by the insurers. These include Board level review of key transactions, disclosure of any conflicts of interest to manage and control such issues. Where the transactions with related parties are in the nature of transactions such as reinsurance arrangements or investment transactions or outsourcing to related parties, for which specific regulations or guidelines have been notified, compliance with the respective regulations or guidelines shall also be ensured.

The Board of Directors of an insurer shall formulate a Policy on Related Party Transactions laying down the following:

- (a) Definition of Transactions in the ordinary course of the insurance business giving examples specific to the insurance company.
- (b) Method of determination of arm's length pricing
- (c) List of items requiring approvals from various authorities, Audit Committee, Board, Shareholders etc.
- (d) Any other matter relevant to the Related party transactions

The Policy shall be reviewed by the Board on an yearly basis. In the case of insurance cover given by the insurance company to the group companies, price/ premium quoted by the companies under F&U guidelines should be considered as arm's length. The disclosures about payments made to group entities of the insurer out of the policyholders funds, shall be made as a part of the related party disclosures in terms of para 9 of these guidelines; and all such transactions may be grouped together under the related party transactions.

2. Auditors, Actuaries, Directors and Key Management Persons shall not simultaneously hold two positions in the insurance company that could lead to conflict or potential conflicts of interest.

3. The Board should ensure ongoing compliance with the statutory requirements on capital structure while planning or examining options for capital augmentation of the Company.

## **4. Governance Structure**

### **4.1 General**

Insurers in India are yet to go public and get their shares listed on the stock exchanges. The composition of the Boards of the Public Sector Undertakings in the insurance sector is also laid down by the Government of India. It is relevant to observe here that the Corporate Governance requirements of companies listed in the Stock Exchanges have evolved over time and are outlined in SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015. As the listing requirements are available in public domain they are not being repeated. The Authority advises all Indian Insurance Companies to familiarize themselves with Corporate Governance structures and requirements appropriate to listed entities. The companies, even if unlisted, are also well advised to initiate necessary steps to address the extant “gaps” that are so identified to facilitate smooth transition at the time of their eventual listing in course of time.

### **4.2 Chairman of the Board**

Subject to the above, the insurance companies presently could have different structures with the Board of Directors headed by a Executive or Non-executive Chairman with distinct oversight responsibilities over the other Directors and Key Management Persons. It is expected that whatever form is taken, the broader elements of good Corporate Governance are present.

### **4.3 Groups and Conglomerates**

The governance structure of the insurer could also be influenced by its association with an insurance group or a larger financial/ non-financial conglomerate. Insurers who are a part of a financial group could also be subject to the regulatory requirements on governance policies and practices established for the group level and implemented uniformly across the group.

However, these practices should be reoriented at the level of the insurer taking into account its specific business and risk profile and sectoral regulatory requirements. Such insurers should nevertheless strive to maintain consistency in policies and practices in order to reinforce controls across the group.

## **5. Board of Directors**

### **5.1 Composition**

- The Insurance Act stipulates that the insurance companies in India would be public companies and hence, would require a properly constituted Board.
- Insurance companies should ensure that the Board comprises of competent and qualified Directors to drive the strategies in a manner that would sustain growth and protect the interests of the stakeholders in general and policyholders in particular.

- The size of the Board in addition to being compliant with legal requirements (where applicable), should be consistent with scale, nature and complexity of business. The size and composition should ensure that they collectively provide knowledge, skills, experience and commitment. Further, the Board Members should be in a position to dedicate sufficient time and commitment to fulfill their responsibilities.
- It is expected that the shareholders of the companies elect or nominate Directors from various areas of financial and management expertise such as accountancy, law, insurance, pension, banking, securities, economics, etc., with qualifications and experience that is appropriate to the company.
- It is essential that the Directors possess the knowledge of group structure, organizational structure, process and products of the insurer and the Board generally complies with the following requirements:-

The Board of Directors and Key Management Persons should understand the operational structure of the insurer and have a general understanding of the lines of business and products of the insurer, more particularly as the insurer grows in size and complexity.

The Board of Directors of an insurer belonging to a larger group structure/ conglomerate should understand the material risks and issues that could affect the group entities, with attendant implication on the insurer.

The Board of Directors is required to have a minimum of three "Independent Directors". However, this requirement is relaxed to 'two' independent directors, for the initial five years from grant of Certificate of Registration to insurers. The optimum composition of Independent and Non-Executive Directors enhances the quality of business judgment and benefits the shareholders and policyholders. This is especially important in respect of insurance companies under conglomerate structure and where there is potential scope for transfer of risks and conflicts of interests that affect the group entities.

Insurers which have less than three independent directors shall ensure that they comply with this requirement within one year of the date of effect of these guidelines.

An independent Director shall fulfill all the conditions specified under Section 149 of the Companies Act, 2013. An appointment letter shall be issued to the Independent director laying down the terms and conditions, including his duties, responsibilities, sitting fees, etc. In case the number of independent directors falls below the required minimum laid down, such vacancy shall be filled up before the immediately following Board meeting or 3 months from the date of such vacancy, whichever is later, under intimation to the Authority.

Similarly, where the Chairman of the Board is non-executive, the Chief Executive Officer should be a whole time director of the Board.



***As required under Section 149 of the Companies Act, 2013, there shall be at least one Woman Director on the Board of every Insurance company.***

## **5.2 The Role and responsibility of the Board**

The specific areas of responsibilities of the Board of insurers are detailed in the **Annexure 1**. The Board would primarily concentrate on the direction, control and governance of the insurer and in particular should articulate and commit to a corporate philosophy and governance that will shape the level of risk adoption, standards of business conduct and ethical behaviour of the company at the macro level. The Board should also set clear and transparent policy framework for translation of the corporate objectives. The Board can delegate its authority to the Board Committees in the discharge of this responsibility but such delegation does not absolve the Board from its primary responsibilities. In this regard, the Board should seek detailed and transparent information flow from the senior management (CEO and other KMPs) through well documented agenda notes and also devise appropriate systems to serve as effective monitoring arrangements. As the Boards generally do not meet at frequent intervals, it is imperative that the senior management is clearly made accountable for the two way information flow. The structure of the Board of Directors should be oriented to setting-up of objectives to meet the expectations of various stakeholders, strategies for their fulfillment and for monitoring the achievements. The Boards of insurance companies need to consider interests of all stakeholders, and especially their policyholders as a specific group. Further, since there could arise a conflict of interest amongst the various stakeholders, a key board function would be to establish strategies and policies that define ethical individual and corporate behaviour and ongoing, effective processes that ensure adherence to these strategies and policies.

Thus, with a view to being effective, the Board in active consultation with the Key Management Persons, should establish and evaluate strategies and policies to address, at the minimum, a broad range of areas, as indicated below. There should concurrently be arrangements to review the policies from time to time to ensure that they are dynamic.

- Overall direction of the business of the insurance company, including policies, strategies and risk management across all the functions;
- Projections on the capital requirements, revenue streams, expenses and the profitability. While laying down the projections, the Board must address the expectations of the shareholders and the policyholders.
- Obligation to fully comply with the Insurance Act and the regulations framed thereunder, and other statutory requirements applicable to it;
- Addressing conflicts of interest;
- Ensuring fair treatment of policyholders and employees;
- Ensuring information sharing with and disclosures to stakeholders, including investors, policyholders, employees, the regulators, consumers, financial analysts and/or rating agencies.
- Establishing channels for encouraging and facilitating employees raising concerns or reporting a possible breach of law or regulations, with appropriate measures to protect whistle blowers;
- Developing a corporate culture that recognizes and rewards adherence to ethical standards.

### **5.3 Fit and Proper Criteria**

In line with the international and domestic norms, the Directors of insurers have to meet the “fit and proper” criteria. The criteria to be satisfied, at a minimum, would relate to integrity demonstrated in personal behaviour and business conduct, soundness of judgment and financial soundness. The Insurance Act prohibits (i) an insurance intermediary/ agent to be the Director of an insurance company (except with prior approval of the Authority); and (ii) the common directorship among life insurance companies. Currently, the fit and proper requirements seek to ensure that the Director should not have been convicted or come under adverse notice of the laws and regulations involving moral turpitude or of any professional body. With a view to ensuring that the Directors comply with the above requirement, a due diligence enquiry should be undertaken on the person to be appointed as Director or for the continuance of the existing Directors only after obtaining a declaration from the proposed/existing Directors in the format given in **Annexure 2**, at the time of their appointment/re-appointment.

### **5.4 Disclosures about Meetings of the Board and its Committees**

Insurers shall ensure compliance with the provisions of the Companies Act, 2013 and the Secretarial Standards issued by the ICSI from time to time as regards conduct of the meetings of the Board of Directors and their committees. In addition to the above, all insurers shall disclose the following in the Director’s Report:

- (a) Number of meetings of the Board of Directors and Committees mandated under these Guidelines, in the financial year
- (b) Details of the composition of the Board of Directors and Committees mandated, setting out name, qualification, field of specialization, status of directorship held etc.
- (c) Number of meetings attended by the Directors and members of the Committee
- (d) Details of the remuneration paid, if any, to all directors (including Independent Directors)

### **6. Control Functions**

Given the risks that an insurer takes in carrying out its operations, and the potential impact it has on its business, it is important that the Board lays down the policy framework to put in place:

- robust and efficient mechanisms for the identification, assessment, quantification, control, mitigation and monitoring of the risks;
- appropriate processes for ensuring compliance with the Board approved policy, and applicable laws and regulations;
- appropriate internal controls to ensure that the risk management and compliance policies are observed;
- an internal audit function capable of reviewing and assessing the adequacy and effectiveness of, and the insurer’s adherence to its internal controls as well as reporting on its strategies, policies and procedures; and

- Independence of the control functions, including the risk management function, from business operations demonstrated by a credible reporting arrangement.

**6.1** The Board shall be responsible for the oversight over the control functions of an Insurer.

**6.2** For insurers within a group, appropriate and effective group-wide risk control systems should be in place in addition to the control systems at the level of the insurer. It is essential to manage risks appropriately on a group-wide basis as well as at the level of the insurer. The Boards of the respective insurers are required to lay down requisite policy framework to ensure that such risks are adequately addressed.

## **7. Delegation of Functions- Committees of the Board:**

With a view to providing adequate Board time for discharge of the significant corporate responsibilities, the Board can consider setting up of various Committees of Directors by delegating the overall monitoring responsibilities after laying down the roles and responsibilities of these Committees to the Board. In particular, the following aspects need to be defined in respect of the role and functions of the Committees:

- Constitution
- Objectives
- Responsibilities
- Frequency of meeting / quorum requirements
- Appointment and removal of members
- Reporting to the Board

Insurers may establish several Committees to undertake specific functions depending on the size and level of the complexity of the operations. Typically, the Committees that assist the Board are Audit Committee, Risk Management Committee, Nomination and Remuneration Committee, Investment Committee, Ethics Committee and Asset-Liability Management Committee.

However, the Authority advises all insurers that it is mandatory to establish Committees for Audit, Investment, Risk Management, Policyholder Protection, Nomination and Remuneration, Corporate Social Responsibility (only for insurers earning profits).

In addition, Regulation 45d of the IRDA (Non-linked Insurance Products) Regulations, 2013 requires constitution of a 'With Profits' Committee by Life Insurance Companies comprising of one Independent Director of the Board, the Chief Executive Officer, the Appointed Actuary of the Company and an Independent Actuary. Establishment of the other Committees is left to the option of the insurer. The role and responsibilities of the Committees would generally be as detailed below:-

## 7.1 Audit Committee (mandatory)

- Every Insurer shall constitute an Audit Committee as per Section 177 of the Companies Act, 2013.
- The Audit Committee shall oversee the financial statements, financial reporting, statement of cash flow and disclosure processes both on an annual and quarterly basis. It shall set-up procedures and processes to address all concerns relating to adequacy of checks and control mechanisms.
- The Chairperson of the Audit Committee should be an Independent Director of the Board with an accounting/finance/audit experience and may be a Chartered Accountant or a person with a strong financial analysis background. The association of the CEO in the Audit Committee should be limited to occasions where the Audit Committee requires eliciting any specific information concerning audit findings. As required under Section 177 of the Companies Act, 2013, the Audit Committee shall comprise of a minimum of three directors, majority of whom shall be Independent Directors.
- The Audit Committee will oversee the efficient functioning of the internal audit department and review its reports. The Committee will additionally monitor the progress made in rectification of irregularities and changes in processes wherever deficiencies have come to notice.
- The Audit Committee shall be directly responsible for the recommendation of the appointment, remuneration, performance and oversight of the work of the auditors (internal/statutory/Concurrent). In case of statutory audit, the independence of the external auditors shall be ensured (although the approval of appointment, remuneration and removal of the statutory auditors shall be done by the shareholders at the general body meeting).
- The Audit Committee shall have the oversight on the procedures and processes established to attend to issues relating to maintenance of books of account, administration procedures, transactions and other matters having a bearing on the financial position of the insurer, whether raised by the auditors or by any other person.
- The Audit Committee shall discuss with the statutory auditors before the audit commences, about the nature and scope of audit as well as have post-audit discussions to address areas of concern.
- Act as a Compliance Committee to discuss the level of compliance in the Company and any associated risks and to monitor and report to the Board on any significant compliance breaches.
- Any additional work other than statutory/internal audit that is entrusted to the auditor or any of its associated persons or companies shall be specifically approved by the Board keeping in mind the necessity to maintain the independence and integrity of the audit relationship. All such other work entrusted to the auditor or its associates shall be specifically disclosed in the Notes to Accounts forming part of the annual accounts of the insurance companies. However, it may be ensured that insurance companies comply with Section 144 of the Companies Act, 2013 before deciding to provide any additional work to the Statutory Auditors.

## **7.2 Investment Committee (mandatory)**

- The Board of every Insurer shall set up an Investment Committee comprising of at least two Non-Executive Directors, the Chief Executive Officer, Chief of Finance, Chief of Investment, Chief Risk Officer and, the Appointed Actuary.
- The Committee shall be responsible to recommend investment policy and lay down the operational framework for the investment operations of the insurer. The policy should focus on a prudential Asset Liability Management (ALM) supported by robust internal control systems. The investment policy and operational framework should, inter alia, encompass aspects concerning liquidity for smooth operations, compliance with prudential regulatory norms on investments, risk management / mitigation strategies to ensure commensurate yield on investments and above all protection of policyholders' funds.
- The Investment Committee shall be responsible for implementing the Investment Policy duly approved by the Board.
- Members of the Committee should familiarize themselves and be conversant with the various Acts, Rules, Regulations, Guidelines, Circulars, etc., issued by the Authority as amended from-time-to-time.
- For assessment of credit risk and market risk, the members of the Committee should not be influenced only by the credit rating. The committee should independently review their investment decisions and ensure that support by the internal due diligence process is an input in making appropriate investment decisions.
- The Committee shall formulate an effective reporting system to ensure compliance with the policy set out by it apart from Internal /Concurrent Audit mechanisms for a sustained and on-going monitoring of Investment Operations.
- The Committee shall meet at least once in a quarter to review investment operations and submit a report to the Board on the performance of the investment portfolio with regard to its safety and soundness.

## **7.3 Risk Management Committee (mandatory)**

It is now well recognized that the sound management of an insurance company, as in the case of other financial sector entities, is dependent on how well the various risks are managed across the organization. In pursuit of development of a strong risk management system and mitigation strategies, insurers shall set up a separate Risk Management Committee to implement the company's Risk Management Strategy. The risk management function should be under the overall guidance and supervision of the Chief Risk Officer (CRO) with a clearly defined role. It shall be organized in such a way that it is able to monitor all the risks across the various lines of business of the company and the operating head has direct access to the Board. It should not focus solely on compliance; it should focus on adding value to rest of the business. Risk management function should work in close co-ordination with the finance function, but independently assess and evaluate the capital, finance and other operating decisions. Broadly, the Risk Management Committee shall:

- Establish effective Risk Management framework and recommend to the Board the Risk Management policy and processes for the organization.

- Set the risk tolerance limits and assess the cost and benefits associated with risk exposure.
- Review the Company's risk- -reward performance to align with overall policy objectives.
- Discuss and consider best practices in risk management in the market and advise the respective functions;
- Assist the Board in effective operation of the risk management system by performing specialized analyses and quality reviews;
- Maintain an aggregated view on the risk profile of the Company for all categories of risk including insurance risk, market risk, credit risk, liquidity risk, operational risk, compliance risk, legal risk, reputation risk, etc.
- Advise the Board with regard to risk management decisions in relation to strategic and operational matters such as corporate strategy, mergers and acquisitions and related matters.
- Report to the Board, details on the risk exposures and the actions taken to manage the exposures; review, monitor and challenge where necessary, risks undertaken by the Company
- Review the solvency position of the Company on a regular basis.
- Monitor and review regular updates on business continuity.
- Formulation of a Fraud monitoring policy and framework for approval by the Board.
- Monitor implementation of Anti-fraud policy for effective deterrence, prevention, detection and mitigation of frauds.
- Review compliance with the guidelines on Insurance Fraud Monitoring Framework dt. 21<sup>st</sup> January, 2013, issued by the Authority.

#### **7.4 Policyholder Protection Committee (mandatory)**

The Authority is mandated by statute to protect policyholders' interests and therefore adoption of sound and healthy market practices in terms of sales, marketing, advertisements, promotion, publicity, redressal of customer grievances, consumer awareness and education is essential. The Authority has, therefore, notified the following Regulations/Guidelines/Circulars:-

- i) Protection of Policyholders' Interests Regulations, 2002;
- ii) Insurance Advertisements and Disclosure Regulations, 2002;
- iii) Master Circular on Insurance Advertisements in August, 2015
- iv) Guidelines on Public Disclosure for insurance companies
- v) Guidelines on Advertisements, Promotion & Publicity of Insurance Companies and Insurance Intermediaries in May 2007.
- vi) Various Circulars on Handling and Disclosure of the Unclaimed Amounts pertaining to the Policyholders
- vii) Guidelines on Grievance Redressal by Insurance Companies in July 2010 and Handling of Complaints/Grievances from Policyholders in April 2015
- viii) Guidelines on Electronic Mode of Payments for Claims

Indian Insurance companies are also required to report on the number and nature of complaints to the IRDAI at monthly intervals to enable IRDAI to assess the governance and market conduct

issues with respect to each insurance company. With a view to addressing the various compliance issues relating to protection of the interests of policyholders, as also relating to keeping the policyholders well informed of and educated about insurance products and complaint-handling procedures, each insurer shall set up a Policyholder Protection Committee.

Such Committee shall be headed by a Non-Executive Director and shall include an expert/representative of customers as an invitee to enable insurers to formulate policies and assess compliance thereof. The Committee shall recommend a policy on customer education for approval of the Board and ensure proper implementation of the same. The Committee should put in place systems to ensure that policyholders have access to redressal mechanisms and shall establish policies and procedures, for the creation of a dedicated unit to deal with customer complaints and resolve disputes expeditiously. The functions and responsibilities of the Policyholders' Protection Committee shall include:-

- Adopt standard operating procedures to treat the customer fairly including time-frames for policy and claims servicing parameters and monitoring implementation thereof.
- Establish effective mechanism to address complaints and grievances of policyholders including mis-selling by intermediaries.
- Put in place a framework for review of awards given by Insurance Ombudsman/Consumer Forums. Analyze the root cause of customer complaints, identify market conduct issues and advise the management appropriately about rectifying systemic issues, if any.
- Review all the awards given by Insurance Ombudsman/Consumer Forums remaining unimplemented for more than three (3) months with reasons therefor and report the same to the Board for initiating remedial action, where necessary.
- Review the measures and take steps to reduce customer complaints at periodic intervals.
- Ensure compliance with the statutory requirements as laid down in the regulatory framework.
- Ensure adequacy of disclosure of "material information" to the policyholders. These disclosures shall comply with the requirements laid down by the Authority both at the point of sale and at periodic intervals.
- Provide details of grievances at periodic intervals in such formats as may be prescribed by the Authority.
- Ensure that details of insurance ombudsmen are provided to the policyholders.
- Review of Claims Report, including status of Outstanding Claims with ageing of outstanding claims.
- Reviewing Repudiated claims with analysis of reasons.
- Status of settlement of other customer benefit payouts like Surrenders, Loan, Partial withdrawal requests etc.
- Review of unclaimed amounts of Policyholders, as required under the Circulars and guidelines issued by the Authority.

The Board shall review the status report on policyholders' protection issues, submitted by the Committee, in each of its meeting.

## 7.5 Nomination and Remuneration Committee (mandatory)

The Nomination and Remuneration Committee shall be constituted in line with the provisions of Section 178 of the Companies Act, 2013. Indian Insurance Companies which have constituted two independent committees for Nomination and Remuneration separately may merge these two Committees after seeking the Board approval, under intimation to the Authority, within a period of 180 days from the date of issue of these guidelines.

The Nomination and Remuneration Committee shall scrutinize the declarations of intending applicants before the appointment/reappointment/election of directors by the shareholders at the General Meetings. The Committee shall also scrutinize the applications and details submitted by the aspirants for appointment as the Key Management Persons. The Nomination and Remuneration Committee could also make independent/discreet references, where necessary, well in time to verify the accuracy of the information furnished by the applicant. The insurance companies are further advised that they should obtain an annual declaration from the Directors/KMPs that the information provided in the declaration at the time of appointment/ reappointment has not undergone any change subsequently and the changes, if any, are apprised by the concerned Director to the Board. The Directors are also required to enter into a Deed of Covenant as per the format placed at **Annexure 3**, with the insurance company, duly approved by the Board, pursuant to their terms of appointment to ensure that there is a clear understanding of the mutual role of the company, the Directors and the Board in Corporate Governance. More particularly, the appointment and reporting of Key Management Persons should be as per the directions given in **Annexure 4**.

It is pertinent to draw attention to the provisions of Section 34 (A) (1) of the Insurance Act, 1938 which stipulates that the remuneration of CEOs/Whole-time Directors of Indian insurance companies is subject to statutory approval of the IRDAI. Further, the overall management costs of the insurer are also additionally governed by the limits prescribed statutorily in the Insurance Act and Regulations framed there under in order to protect the interests of the policyholders. The setting up of a Nomination and Remuneration Committee should keep the above requirements in view. Further, the envisaged role of the Committee includes the following aspects:-

- The Nomination and Remuneration Committee is required to determine on behalf of the Board and on behalf of the shareholders with agreed terms of reference, the insurance company's policy on remuneration packages and any compensation payment, for the CEO, the Executive Directors, Key management Persons of the company.
- The remuneration package shall be aligned appropriately with the performance objectives laid down for the Key Management Persons.
- In order to avoid conflict of interest, the Nomination and Remuneration Committee, may comprise of at least three non-executive directors, with the Chairman of the Committee being an independent director. At least one-half of the Committee shall comprise of Independent Directors.



- The Nomination and Remuneration Committee shall ensure that the remuneration packages of the Key Management Persons of the company are as per the Remuneration Policy approved by the Board.
- The Committee shall also ensure that the proposed appointments/ re-appointments of Key Management Persons or Directors are in conformity with the Board approved policy on retirement/ superannuation.

## **7.6 Corporate Social Responsibility Committee ('CSR Committee') (mandatory)**

Section 135 of the Companies Act, 2013 requires constitution of a CSR Committee if certain conditions as mentioned in the said Section are fulfilled. For Indian Insurance Companies, a CSR Committee is required to be set up if the insurance company earns a Net Profit of Rs. 5 Crores or more during the preceding financial year. Further the 'Net Profit' for this purpose shall be as under:-

*"Net profit" means the "profit/(loss) before tax" as per its financial statements prepared in accordance with the applicable provisions of the Insurance Act, 1938 and the Regulations framed thereunder, but shall not include the following, namely*

- (i) Any profit arising from any overseas branch or branches of the company, whether operated as a separate company or otherwise; and*
- (ii) any dividend received from other companies in India, which are covered under and complying with the provisions of section 135 of the Companies Act.*

***Provided that net profit in respect of a financial year for which the relevant financial statements were prepared in accordance with the provisions of the Insurance Act, 1938, shall not be required to be re-calculated in accordance with the provisions of the Companies Act.***

In line with Section 135(5) of Companies Act, 2013, the Board of Directors of the Company shall ensure that the Company spends not less than 2% of the three years' average Net Profits as defined above towards the CSR activities.

- (a) CSR will be based only on the average of the three years' profit as per the Statement of Profit and Loss Account as stated above.
- (b) The CSR Committee shall formulate a CSR policy and get it approved by the Board. Constitution of CSR Committee will be as per Companies Act, 2013.
- (c) The expense incurred on CSR shall not be included for the purpose of calculation of ceilings on Expenses of Management under Section 40B or Section 40C, as the case may be.
- (d) The expenses incurred on CSR activities should not be charged to the Policyholders' Account.

## **7.7 With Profits Committee:**

The Authority has issued IRDA (Non-Linked Insurance Products) Regulations 2013, which lay down the framework about the With Profit Fund Management and Asset sharing, among other things. In terms of these Regulations, every Insurer transacting life insurance business shall constitute a With Profits Committee comprising of an Independent Director, the CEO, The Appointed Actuary and an

independent Actuary. The Committee shall meet as often as is required to transact the business and carry out the functions of determining the following:

- the share of assets attributable to the policyholders
- the investment income attributable to the participating fund of policyholders
- the expenses allocated to the policyholders

The report of the With Profits Committee in respect of the above matters should be attached to the Actuarial Report and Abstract furnished by the insurers to the Authority. The Board of an insurer shall ensure that any other stipulations regarding the constitution and/ or functioning of the With Profits Committee as indicated in the Regulations made by the Authority from time to time shall be complied with at all times.

## **7.8 Other Committees**

The other Committees which can be set up by the Board, include the Ethics Committee and ALM Committee (other than life insurers). In cases where Board decides not to constitute such Committees, their functions and responsibilities can be addressed in such manner as the Board may deem fit. However, once these Optional Committees are in place, the insurer is required to comply with the requirements on the “Role and Responsibilities” of such Committees as laid down under these Guidelines.

Wherever the functions of the mandatory committees are capable of being merged without affecting the independence and objectivity envisaged in the corporate governance structure, insurance companies may do so under specific approval of their Boards and intimation to the Authority. However, the Audit Committee and the Investment Committee shall not be merged with any other Committee of the Board under any circumstances.

### **7.8.1 Ethics Committee (not mandatory)**

Functions and Responsibilities of the Ethics Committee shall include:

- Monitoring the compliance function and the insurance company’s risk profile in respect of compliance with external laws and regulations and internal policies, including its code of ethics or conduct.
- Receiving reports on the above and on proactive compliance activities aimed at increasing the insurance company’s ability to meet its legal and ethical obligations, on identified weaknesses, lapses, breaches or violations and the controls and other measures in place to help detect and address the same.
- Supervising and monitoring matters reported using the insurer’s whistle blowing or other confidential mechanisms for employees and others to report ethical and compliance concerns or potential breaches or violations.

- Advising the board on the effect of the above on the insurer's conduct of business and helping the board set the correct "tone at the top" by communicating, or supporting the communication, at all levels of the insurer of the importance of ethics and compliance.
- Approving compliance programmes, reviewing their effectiveness on a regular basis and signing off on any material compliance issues or matters.

### **7.8.2 Asset Liability Management (ALM) Committee**

ALM is an ongoing process of formulating, implementing, monitoring and revising strategies related to assets and liabilities to achieve an organization's financial objectives, given the organization's risk appetite, risk tolerances and business profile. The need for ALM cannot be over-emphasized as it lays down the framework to ensure that the insurer invests in a manner which would enable it to meet its cash flow needs and capital requirements at a future date to mitigate liquidity risk and solvency stipulations.

The functions of the ALM Committee (wherever constituted) shall include:

- Setting the insurer's risk/reward objectives and assessing policyholder expectations.
- Quantifying the level of risk exposure (eg. market, credit and liquidity) and assessing the expected rewards and costs associated with the risk exposure.
- Formulating and implementing optimal ALM strategies and meeting risk-reward objectives at both product and enterprise level.
- Ensuring that liabilities are backed by appropriate assets and manage mismatches between assets and liabilities to ensure they remain within acceptable monitored tolerances for liquidity, solvency and the risk profile of the entity.
- Monitoring risk exposures at periodic intervals and revising ALM strategies where required. Reviewing, approving and monitoring systems, controls and reporting used to manage balance sheet risks including any mitigation strategies.
- Regular review and monitoring of mismatch between assets and liabilities and the acceptable tolerance limits for mismatch, if any.
- Ensuring that management and valuation of all assets and liabilities comply with standards, prevailing legislation and internal and external reporting requirements.
- Submitting the ALM information before the Board at periodic intervals. Annual review of strategic asset allocation.
- Reviewing key methodologies and assumptions including actuarial assumptions, used to value assets and liabilities
- Managing capital requirements at the company level using the regulatory solvency requirements
- Reviewing, approving and monitoring capital plans and related decisions over capital transactions (e.g. dividend payments, acquisitions, disposals, etc).

Where an insurer does not constitute the Asset Liability Management (ALM) Committee, the functions of ALM shall form part of the Risk Management Committee.

**7.9** The mandatory committees, **except Nomination and Remuneration Committee, the Corporate Social Responsibility Committee and the With Profits Committee** shall meet at least four times in a year and not more than four months shall elapse between two successive meetings of such Committees. The quorum shall be two members or one-third of the members of the Committee, whichever is greater, however in case independent director(s) is/ are mandated to be in any of the Committees, **at least one such independent director or his alternate director**, should necessarily be present to form the quorum.

As specified in the proviso to Section 161(2) of the Companies Act, 2013, no person shall be appointed as an alternate director for an independent director unless he/she is qualified to be appointed as an independent director under the provisions of this Act. This condition shall be applicable even while appointing an alternate director to an Independent director in any of the Committees.

It is emphasized that the overall responsibility for directing the affairs of the insurers shall be with the Board and it shall continue to exercise its oversight directly on matters that are not specifically delegated to any of its Committees.

## **8. Key Management Persons:**

### **8.1 CEO/ Managing Director/ Whole-Time Director**

The Chief Executive Officer/Whole Time Director/ Managing Director of the company and other key functionaries are responsible for the operations and day to day management of the company in line with the directions of the Board and the Committees set up by the Board. Section 34A of the Insurance Act, 1938 requires prior approval of the Authority for appointment, re-appointment or termination of the Chief Executive Officer and the Whole Time Directors. The Authority expects the CEO to be responsible for the conduct of the company's affairs in a manner which is not detrimental to the interests of the policyholders and which is consistent with the policies and directions of the Board. The Board should, therefore, carry out effective due diligence to establish that the new incumbent is 'fit and proper' before recommending the name for Authority's approval. In case the CEO resigns, the Authority should be kept informed of such resignation and the reasons therefor. The Insurance Act also prohibits the Managing Director or other Officer of a life insurance company from being a Managing Director or Other Officer of any other Life insurance company or of a Banking company or an Investment Company. As the appointment of the CEO is made with the prior approval of the IRDAI the Board should take proactive steps to decide on the continuance of CEO well in time before the expiry of his tenure or to identify the new incumbent. The Authority requires the proposal to be submitted with the approval of the Board at least a month before the completion of the tenure of the incumbent. The application to the Authority in Form A

(**Annexure 5**) shall be accompanied with information as prescribed in Form B and Form C as indicated in and **Annexure 6** of these guidelines.

As a corollary, the insurers should also have practices in place for succession planning for the key senior functionaries through a process of proper identification and nurturing of individuals for taking over senior management positions. A checklist of due diligence to be conducted by the Board Nomination and Remuneration Committee before recommending consideration of appointment of a person as a Managing or Whole-time Director is attached (Form A of Annexure 5 & Form B of Annexure 6). The Form 'C' which is required to be submitted to the Authority for considering approval to the appointment of Managing/Whole-time Director is also attached (Annexure 6).

## **8.2 Role of Appointed Actuaries**

IRDAI has brought out detailed Regulations on Appointed Actuary vide IRDA (Appointed Actuary) Regulations, 2000, detailing the procedure for his appointment, qualifications, powers along with his duties and obligations. The Regulations also stipulate that prior approval of the Authority shall be taken for the appointment of the Appointed Actuary. The Board should ensure that the requirements are scrupulously complied with. In brief, it is reiterated that:

- A procedure for appointment of Appointed Actuary should be put in place.
- The Appointed Actuary should qualify and satisfy the 'Fit & Proper' criteria and other eligibility conditions as mentioned in IRDA (Appointed Actuary) Regulations, 2000, as amended from time to time.
- The insurance companies shall clearly set forth the Appointed Actuary's responsibilities and any advisory role vis-à-vis the Board or the management as well as his/her rights and obligations. These shall be in addition to the duties of the Appointed Actuaries as specified in the IRDA Regulations and any other directions of IRDA in the matter.
- As soon as the Appointed Actuary realizes that the entity does not comply or is likely to fail in complying with the requirements of solvency and other parameters of sound operations, he/she shall inform the Board of the insurer. If no viable/acceptable action is taken by the Board, then he/she has to inform the same to IRDAI.
- The Board shall interact directly with the Appointed Actuary wherever it considers it expedient to secure his advice, it may do so in such manner as it may deem fit. The Appointed Actuary shall provide professional advice or certification to the board with regard to:-
  - Estimation of technical provisions in accordance with the valuation framework set up by the insurer
  - Identification and estimation of material risks and appropriate management of the risks
  - Financial condition testing
  - Solvency margin requirements
  - Appropriateness of premiums (and surrender value)
  - Allocation of bonuses to with-profit insurance contracts

- Management of participating funds (including analysis of material effects caused by strategies and policies)
- Product design, risk mitigation (including reinsurance) and other related risk management roles.

While the areas of advice/certification listed above are with specific reference to life companies, the appointed actuaries in case of non life insurance companies shall provide such advice/certification to the extent applicable. In order to facilitate the Appointed Actuary in discharging his/ her responsibilities, he/ she shall at all times be provided access to the information as required.

## **8A. External Audit - Appointment of Statutory Auditors**

The IRDAI (Preparation of Financial Statements and Auditors' Report of Insurance Companies) Regulations, 2002 empower the Authority to issue directions/guidelines on appointment, continuance or removal of auditors of an insurer. These guidelines/directions may include prescriptions on qualifications and experience of auditors, their rotation, period of appointment, etc. as may be deemed necessary by the Authority.

The detailed guidelines as regards appointment of auditors and the reporting about all the auditors appointed by insurers are given in **Annexure 7** to these guidelines. The Board should therefore ensure that the statutory auditors are compliant with the regulatory requirements and there are no conflicts of interest in their appointment. The auditors should possess the competence and integrity to alert the appropriate authorities promptly of any event that could seriously affect the insurance company's financial position or the organization structure of its administration or accounting and of any criminal violations or material irregularities that come to his notice.

### **8A.1 Access to Board and Audit Committee**

The Audit Committee should have discussions with the statutory auditors periodically about internal control systems, the scope of audit including the observations of the auditors (where applicable) and review the quarterly/half yearly and annual financial statements as the case may be before submission to the Board of Directors and also ensure compliance with the internal control systems. The statutory auditors should also have access to the Board of Directors through the Audit Committee.

## **9. Disclosure Requirements**

The IRDAI (Preparation of Financial Statements and Auditors' Report of Insurance Companies) Regulations, 2002, have prescribed certain disclosures in the financial statements and the Authority is in the process of finalizing additional disclosures to be made by insurers at periodical intervals. In the meantime, it may be ensured by the Board that the information on the following, including the

basis, methods and assumptions on which the information is prepared and the impact of any changes therein are also disclosed in the annual accounts:-

- Quantitative and qualitative information on the insurance company's financial and operating ratios, viz. incurred claim, commission and expenses ratios.
- Actual solvency margin details vis-à-vis the required margin
- Insurers engaged in life insurance business shall disclose persistency ratio of policies sold by them
- Financial performance including growth rate and current financial position of the insurance company
- Description of the risk management architecture
- Details of number of claims intimated, disposed off and pending with details of duration
- All pecuniary relationships or transactions of the Non-Executive Directors vis-à-vis the insurance company shall be disclosed in the Annual Report
- Elements of remuneration package(including incentives) of MD & CEO and all other directors and Key Management Persons
- Payments made to group entities from the Policyholders Funds
- Any other matters, which have material impact on the insurer's financial position.

Where finalization of annual accounts extends beyond 90 days from the end of the Financial Year, the status on disclosure in the financial statements required under this clause may be made within 15 days of adoption of annual accounts by the Board of Directors of the Insurers.

## **10. Outsourcing Arrangements**

10.1 All outsourcing arrangements of an Insurer shall have the approval of a Committee of Key Management Persons and should meet the terms of the Board approved outsourcing policy. The Board or the Risk Management Committee should be periodically apprised about the outsourcing arrangements entered into by the insurer and also confirmation to the effect that they comply with the stipulations of the Authority as well as the internal policy be placed before them. An insurer shall not outsource any of the company's core functions other than those that have been specifically permitted by the Authority. Every outsourcing contract shall contain explicit safeguards regarding confidentiality of data and all outputs from the data, continuing ownership of the data with the insurer and orderly handing over of the data and all related software programs on termination of the outsourcing arrangement.

10.2 The management of the insurance company shall monitor and review the performance of agencies to whom operations have been outsourced at least annually and report findings to the Board.

10.3 The Authority reserves the right to access the operations of the outsourced entity to the extent these are relevant to the insurance company and for the protection of policyholder.

## 11. Interaction with the Regulator

11.1 Effective corporate governance practices in the office of the insurance company will enable IRDAI to have greater confidence in the work and judgment of its board, Key Management Persons and control functions.

11.2 In assessing the governance practices in place, the IRDAI would:

- Seek confirmation that the insurance company has adopted and effectively implemented sound corporate governance policies and practices;
- Assess the fitness and propriety of board members;
- Monitor the performance of boards;
- Assess the quality of insurance company's internal reporting, risk management, audit and control functions;
- Evaluate the effects of the insurance company's group structure on the governance strategies;
- Assess the adequacy of governance processes in the area of crisis management and business continuity.

11.3 The IRDAI would bring to the attention of the Board and senior management, concerns which have been detected by it through supervisory activities.

### 11.4 Reporting to IRDAI

11.4.1 Insurers should examine to what extent they are currently complying with these guidelines and initiate immediate action to achieve compliance (where not already in compliance) within a period of three months from the date of notification of these guidelines. It is expected that all the arrangements should be in place to ensure full compliance with the guidelines from the financial year 2016-2017. Where such compliance is not possible for any specific reason, the insurance companies should write to the IRDAI for further guidance.

11.4.2 Each insurer should designate Company Secretary as the Compliance officer whose duty will be to monitor continuing compliance with these guidelines.

11.4.3 Annual Report of insurers shall have a separate certification from the Compliance Officer in the format attached herewith as **Annexure 8**.

11.4.4 All insurers are required to file a report on status of compliance with the Corporate Governance guidelines on an annual basis. This report shall be filed within 3 months from the end of the financial year, i.e., before 30 June. The report shall be filed as per the format in the **Annexure 9**.



## **12. Whistle Blower Policy**

**12.1** Insurers are well advised to put in place a “whistle blower” policy, where-by mechanisms exist for employees to raise concerns internally about possible irregularities, governance weaknesses, financial reporting issues or other such matters. These could include employee reporting in confidence directly to the Chairman of the Board or of a Committee of the Board or to the Statutory Auditor.

The Policy illustratively covers the following aspects:

- Awareness of the employees that such channels are available, how to use them and how their report will be handled.
- Handling of the reports received confidentially, for independent assessment, investigation and where necessary for taking appropriate follow-up actions.
- A robust anti-retaliation policy to protect employees who make reports in good faith.
- Briefing of the board of directors.

**12.2** The appointed actuary and the statutory/internal auditors have the duty to ‘whistle blow’, i.e., to report in a timely manner to the IRDAI if they are aware that the insurance company has failed to take appropriate steps to rectify a matter which has a material adverse effect on its financial condition. This would enable the IRDAI to take prompt action before policyholders’ interests are undermined.

## **13. Evaluation of Board of Directors including Independent Directors**

As required under Schedule IV of the Companies Act, 2013, the independent directors shall meet at least once in a year to evaluate the performance of other than independent Directors. Similarly, there shall be an evaluation of the Independent Directors by the other members of the Board of Directors as required in the Schedule.

## **14. Applicability**

These guidelines shall be applicable to all insurers granted registration by the Authority except that:

- (i) reinsurance companies may not be required to have the Policyholders’ Protection Committee; and
- (ii) branches of foreign reinsurers in India may not be required to constitute the Board and its mandatory committees as indicated herein.

**Role and Responsibilities of the Board of Directors**

- 1) The Board should ensure that the Governance principles set for the insurer comply with all relevant laws, regulations and other applicable codes of conduct.
- 2) The Board should set the following policies in consultation with the Management of the Company.
  - a) Define and periodically review the business strategy.
  - b) Define the underwriting policy of the insurer.
  - c) Determine the retention and reinsurance policy and in particular, the levels of retentions of risk by the insurer and the nature and extent of reinsurance protection to be maintained by the insurer.
  - d) Define the policy of the insurer as regards investment of its assets consistent with an appropriate asset liability management structure.
  - e) Define the insurer's policy on appointments and qualification requirements for human resources and ensure that the incentive structure does not encourage imprudent behaviour.
- 3) The Board should define and set the following standards:-
  - a) Define the standards of business conduct and ethical behaviour for directors and senior management.
  - b) Define the standards to be maintained in policyholder servicing and in redressal of grievances of policyholders.
- 4) The Board would be responsible to provide guidance for implementation of business strategy and review the same periodically.
- 5) As an integral part of proper implementation of the business strategy, the Board should take action as under:-
  - a) Establish appropriate systems to regulate the risk appetite and risk profile of the Company. It will also enable identification and measurement of significant risks to which the company is exposed in order to develop an effective risk management system.
  - b) Ensure that all directions of IRDAI are submitted to the Board and the recommendations are implemented as per the Board philosophy.
  - c) Ensure that the IT systems in the company are appropriate and have built-in checks and balances to produce data with integrity and put in place a business continuity and disaster recovery plan.

d) Ensure that the company has put in place a robust compliance system for all applicable laws and regulations.

e) Prescribe requirements and frequency of reporting in respect of each of the above areas of responsibility as may be decided by the Board.

6) In discharge of the above and other Governance functions, the Board may delegate the responsibilities to mandated/ other recommended Empowered Committees of Directors while retaining its primary accountability.

**Declaration from the proposed/ existing Directors**

**Name of the Insurance Company:**

Declaration and Undertaking by Director

(with enclosures as appropriate as on \_\_\_\_\_(date))

**I. Personal details of director**

- a. Full Name
- b. DIN
- c. Date of Birth
- d. Educational qualifications
- e. Relevant Background, Knowledge and Experience
- f. Permanent Address
- g. Present Address
- h. E-mail Address and Telephone Number
- i. Permanent Account Number under the Income Tax Act and name and address of Income Tax circle where assessed
- j. Any other information relevant to Directorship of the Insurance Company

**II. Relevant relationships of Director**

- a. List of relatives, if any, who are connected with the insurer ( Refer Section 2(77) of the Companies Act, 2013)
- b. List of entities, if any, in which he/she is considered as being interested (Refer Section 184 of the Companies Act 2013)

**III. Records of professional achievements**

- a. Relevant professional achievements
- b. Whether the director was associated as director or officer with any entity that was wound up or that was penalized for violation of any law.

**IV. Proceedings, if any, against the director**

- a. If the director is a member of a professional association/ body, details of disciplinary

action, if any, pending or commenced or resulting in conviction in the past against him/her or whether he/she has been banned from entry of at any profession/occupation at any time.

b. Details of prosecution, if any, pending or commenced or resulting in conviction in the past against the director and/or against any of the entries listed at II(b) and (c) above for violation of economic laws and regulations.

c. Details of criminal prosecution, if any, pending or commenced or resulting in conviction in the last five years against the director

d. Whether the director attracts any of the disqualifications envisaged under Section 164 of the Companies Act, 2013?

e. Has the director or any of the entities at II (b) and (c) above been subject to any investigation at the instance of Government department or agency?

f. Has the director at any time been found guilty of violation of rules/regulations/legislative requirements of customs/excise/income tax/foreign exchange/other revenue authorities? If so, give particulars

g. Whether the director has at any time come to the adverse notice of a regulator such as SEBI, RBI, MCA? If so, give particulars.

h. Any other explanation/information in regard to items I to III above and other information considered relevant for judging his/ her fit and proper compliance for directorship.

**V. Directorships or senior executive positions held by the director in other corporate bodies.**

## **Undertaking**

I confirm that the above information is, to the best of my knowledge and belief, true and complete. I undertake to keep the insurer fully informed, as soon as possible, of all events which take place subsequent to my appointment which are relevant to the information provided above.

I also undertake to execute the deed of covenant required to be executed by the directors of the insurance company.

Place:

Signature of the Director

Date:

## **VI. Remarks of Board of Directors of Insurer**

Place:

Signature

Date:

**FORM OF DEED OF COVENANTS WITH A DIRECTOR**

THIS DEED OF COVENANTS is made this \_\_\_\_\_ day of \_\_\_\_\_ Two thousand \_\_\_\_\_  
BETWEEN \_\_\_\_\_, having its registered office at

\_\_\_\_\_ (hereinafter called the 'Insurance Company ') of the one part and

Mr/Ms \_\_\_\_\_ of \_\_\_\_\_ (hereinafter called the 'Director')  
of the other part.

**WHEREAS**

A. The Director has been appointed as a Director on the Board of the Insurance Company (hereinafter called 'the Board') and is required as a term of his/her appointment to enter into a Deed of Covenants with the Insurance Company.

B. The Director has agreed to enter into this Deed of Covenants, which has been approved by the Board, pursuant to his said terms of appointment.

**NOW IT IS HEREBY AGREED AND THIS DEED OF COVENANTS WITNESSETH  
AS FOLLOWS:**

**1)** The Director acknowledges that his/her appointment as Director on the Board of the Insurance Company is subject to applicable laws and regulations including the Memorandum and Articles of Association of the Insurance Company and the provisions of this Deed of Covenants.

**2)** The Director covenants with the Insurance Company that:

i) The Director shall disclose to the Board the nature of his/her interest, direct or indirect, if he/she has any interest in or is concerned with a contract or arrangement or any proposed contract or arrangement entered into or to be entered into between the Insurance Company and any other person, immediately upon becoming aware of the same or at meeting of the Board at which the question of entering into such contract or arrangement is taken into consideration or if the Director was not at the date of that meeting concerned or interested in such proposed contract or arrangement, then at the first meeting of the Board held after he/she becomes so concerned or interested and in case of any other contract or arrangement, the required disclosure shall be made at the first meeting of the Board held after the Director becomes concerned or interested in the contract or arrangement.

ii) The Director shall disclose by general notice to the Board his/her other Directorships, his/her memberships of bodies corporate, his/her interest in other entities and his/her interest as a partner or proprietor of firms and shall keep the Board apprised of all changes therein.

iii) The Director shall provide to the Insurance Company a list of his/her relatives as defined in the Companies Act, 2013 and to the extent the Director is aware of Directorships and interests of such relatives in other bodies corporate, firms and other entities.

iv) The Director shall in carrying on his/her duties as Director of the Insurance Company:

a) use such degree of skill as may be reasonable to expect from a person with his/her knowledge or experience;

b) in the performance of his/her duties, take such care as he/she might be reasonably expected to take on his/her own behalf and exercise any power vested in him/her in good faith and in the interest of the Insurance Company;

c) shall keep himself/herself informed about the business, activities and financial status of the Insurance Company to the extent disclosed to him/her;

d) attend meetings of the Board and Committees thereof (collectively for the sake of brevity hereinafter referred to as ' Board ') with fair regularity and conscientiously fulfill his/her obligations as Director of the Insurance Company;

e) shall not seek to influence any decision of the Board for any consideration other than in the interests of the Insurance Company;

f) shall bring independent judgment to bear on all matters affecting the Insurance Company brought before the Board including but not limited to statutory compliances, performance reviews, compliances with internal control systems and procedures, key executive appointments and standards of conduct;

g) shall in exercise of his/her judgment in matters brought before the Board or entrusted to him/her by the Board be free from any business or other relationship which could materially interfere with the exercise of his/her independent judgment; and

h) shall express his/her views and opinions at Board meetings without any fear or favour and without any influence on exercise of his/her independent judgment;

v) The Director shall have:

a) fiduciary duty to act in good faith and in the interests of the Insurance Company and not for any collateral purpose;



b) duty to act only within the powers as laid down by the Insurance Company's Memorandum and Articles of Association and by applicable laws and regulations; and

c) duty to acquire proper understanding of the business of the Insurance Company.

vi) The Director shall:

a) not evade responsibility in regard to matters entrusted to him/her by the Board;

b) not interfere in the performance of their duties by the whole-time Directors and other officers of the Insurance Company and wherever the Director has reasons to believe otherwise, he/she shall forthwith disclose his/her concerns to the Board; and

c) not make improper use of information disclosed to him/her as a member of the Board for his/her or someone else's advantage or benefit and shall use the information disclosed to him/her by the Insurance Company in his/her capacity as Director of the Insurance Company only for the purposes of performance of his/her duties as a Director and not for any other purpose.

3) The Insurance Company covenants with the Director that:

i) the Insurance Company shall apprise the Director about:

a) Board procedures including identification of legal and other duties of Director and required compliances with statutory obligations;

b) control systems and procedures;

c) voting rights at Board meetings including matters in which Director should not participate because of his/her interest, direct or indirect therein;

d) qualification requirements and provide copies of Memorandum and Articles of Association;

e) corporate policies and procedures;

f) insider dealing restrictions;

g) constitution of, delegation of authority to and terms of reference of various committees constituted by the Board;

h) appointments of Senior Executives and their authority;

i) remuneration policy,

j) deliberations of committees of the Board, and

k) communicate any changes in policies, procedures, control systems, applicable regulations including Memorandum and Articles of Association of the Insurance Company, delegation of authority, Senior Executives, etc. and appoint the compliance officer who shall be responsible for all statutory and legal compliance.

ii) the Insurance Company shall disclose and provide to the Board including the Director all information which is reasonably required for them to carry out their functions and duties as a Directors of the Insurance Company and to take informed decisions in respect of matters brought before the Board for its consideration or entrusted to the Director by the Board or any committee thereof; The insurance company shall provide training on an on-going basis to enable the directors to discharge their role effectively.

iii) the disclosures to be made by the Insurance Company to the Directors shall include but not be limited to the following:

a) all relevant information for taking informed decisions in respect of matters brought before the Board;

b) Insurance Company's strategic and business plans and forecasts;

c) organisational structure of the Insurance Company and delegation of authority,

d) corporate and management controls and systems including procedures;

e) economic features and marketing environment,

f) information and updates as appropriate on Insurance Company's products;

g) information and updates on major expenditure;

h) periodic reviews of performance of the Insurance Company; and

i) report periodically about implementation of strategic initiatives and plans;

iv) the Insurance Company shall communicate outcome of Board deliberations to Directors and concerned personnel and prepare and circulate the draft minutes of the meeting of Board to Directors in a timely manner and to the extent possible within fifteen days of the date of conclusion of the Board meeting; and

v) advise the Director about the levels of authority delegated in matters placed before the Board.

4) The Insurance Company shall provide to the Director periodic reports on the functioning of internal control system including effectiveness thereof.

5) The Insurance Company shall appoint a compliance officer who shall be a Senior Executive for reporting to the Board/respective Committees of the Board and be responsible for setting forth a framework on compliance responsibility and for implementation thereof. He/she shall also monitor adherence to the applicable laws and regulations and policies and procedures including but not limited to directions of Insurance Regulatory and Development Authority and other concerned statutory and governmental authorities.

6) The Director shall not assign, transfer, sublet or encumber his/her office and his/her rights and obligations as Director of the Insurance Company to any third party provided that nothing herein contained shall be construed to prohibit delegation of any authority, power, function or delegation by the Board or any committee thereof subject to applicable laws and regulations including Memorandum and Articles of Association of the Insurance Company.

7) The failure on the part of either party hereto to perform, discharge, observe or comply with any obligation or duty shall not be deemed to be a waiver thereof nor shall it operate as a bar to the performance, observance, discharge or compliance thereof at any time or times thereafter.

8) Any and all amendments and/or supplements and/or alterations to this Deed of Covenants shall be valid and effectual only if in writing and signed by the Director and the duly authorized representative of the Insurance Company.

9) This Deed of Covenants has been executed in duplicate and both the copies shall be deemed to be originals.

IN WITNESS WHEREOF THE PARTIES HAVE DULY EXECUTED THIS AGREEMENT ON THE DAY, MONTH AND YEAR FIRST ABOVE WRITTEN.

**For the Insurance Company**

Name  
Title  
Signed and delivered  
In the Presence of: ... ..

**Director**

Name:  
Signed and delivered  
In the presence of: ... ..

**Annexure-4**  
**(Refer Para 7.6)**

**Guidelines on appointment and reporting of Key Management Persons**

The Authority had issued guidelines vide ref. IRDA/Life/GDL/ Misc./202/10/2013 dt. 9<sup>th</sup> October, 2013 as regards the reporting of Key Persons of insurers. The guidelines provided for seeking important information about the persons appointed at key positions by the insurers and reporting the same to the Authority. The guidelines also envisaged the certification of compliance on an annual basis by the CEO of the insurer.

The Companies Act, 2013 has brought in many changes as regards the key management persons and directors of companies and has enhanced the compliance requirements as regards these personnel. The Corporate Governance Guidelines issued by the Authority have also been revised.

In the light of the above, there is a need to integrate the guidelines in respect of key persons with the overall corporate governance framework of insurers. Therefore, the Authority hereby issues these modified guidelines for appointment and reporting of Key Management Persons of insurers.

## **Guidelines:**

### **Definition – Key Management Person(KMP):**

“Key Management Person” means members of the core management team of an insurer including all whole-time directors/ Managing Directors/ CEO and the functional heads one level below the MD/CEO, including the CFO, Appointed Actuary, Chief Investment Officer, Chief Risk Officer, Chief Compliance Officer and the Company Secretary.

**Explanation:** *The nomenclature or designations used in the above definition are only illustrative and shall be appropriately mapped to the respective functions of the Insurers while reporting information under these guidelines, wherever, necessary.*

With regard to the appointment and in order to ensure that all positions of “Key Management Persons” are adequately and totally manned, all the Insurers are hereby directed that:

1. The appointment of MD/CEO/Whole-time Director and Appointed Actuary shall be governed by the provisions of the Insurance Act, 1938 and Regulations made thereunder.
2. Appointment or termination of all such key management persons shall be made with the approval of Board of Directors on recommendation of the Nomination and Remuneration Committee.

Before appointment of a person as a KMP, the Board or Committee thereof shall carry out due diligence to ensure that the appointee is “fit and proper” for the proposed position. Insurers shall obtain declaration in Form KMP-1 annexed to these guidelines from the proposed KMP prior to their consideration for appointment.

3. Insurers shall ensure that no single individual is simultaneously holding more than one position of Key Management Person that may have potential conflict of interest.

Where a person is going to have two or more positions of Key Management Person simultaneously, insurer shall furnish a note highlighting the reasons for such appointment, to the Authority prior to such dual/ multiple appointments.

4. All insurers are required to obtain and maintain the particulars of their respective 'Key Management Persons' in the format 'Form - *KMP-1*', separately for each key person, as and when there is an appointment/ change in the individual person holding the position of Key management Person. Intimation of appointment/ reappointment/ change of any KMP shall be filed with the Authority within 30 days from the date of new person taking over the position of '*Key Management Person*'.
5. Insurers shall within a period of 30 days notify the Authority in the event of any position of '*key Management person*' falling vacant, with the details of the person who will officiate in that position.
6. In the event of vacancy in the office of any Key Management Person, insurers shall initiate action for filling up of such vacant positions on a priority basis. At no point of time the position of any '*Key Management Person*' shall remain vacant for a continuous period of more than 180 days.
7. The names and designations of all the '*Key Management Persons*' shall be disclosed on their respective websites by all Insurers.
8. Unless specified otherwise by the Authority in the respective Regulations, Chief Compliance Officer shall be the designated Compliance Officer for submitting returns, reports and applications for approvals to the Authority.
9. Notwithstanding the above provisions, in order to develop the accountable organizational reporting structures, it shall be ensured that any information that is called for by the Authority, shall be submitted only by the concerned '*Key Management Person*'. The Board of the Insurer or Committee thereof may also delegate the powers to any of the '*Key Management Person*' for submitting such information to the Authority.
10. Every Insurer shall submit an annual compliance certificate or declaration as a part of the Corporate Governance Check-list, to the Authority.

**Form KMP - 1**

**Information relating to Key Management Person ----- (Designation) as at (date) -----  
-- in terms of Clause --- of 'Guidelines on Corporate Governance**

**Name of Insurance Company:**

1. Name (and any previous names) of KMP:
  
2. Present Residential Address:
3. Current Telephone, Fax and E-mail Addresses:
4. Date and Place of Birth:
5. Nationality (and any previous Nationality):
6. Passport / Identity Card:
  - a. Number:
  - b. Date and Place of Issue:
  - c. Date of expiry:
  - d. Issuing Authority:
  
7. Name and Address of Bank:
8. Details and Dates of Academic Qualification:
9. Details and Dates of Professional Qualification:
10. Description of the position (including responsibilities) and proposed date of commencement:
11. Experience:  
(covering preceding 5 years)
12. (a) Details of previous employment (in the last 5 years) :
  - (b) If previous employer was regulated by a regulatory body, then:
    1. Name of the Previous Employer:
    2. Nature of Employer's business:
    3. Name of the Regulatory body supervising the Employer:
    4. Last Designation (including duties & responsibilities):
    5. Date of Appointment:
    6. Date of resignation:

13. Details of other business interests of the Key Management Person during the preceding 5 years in the form of holding equity shares in excess of 2% or Directorships in any other entity:

14. Relationship of KMP with the Insurer and related parties of insurer, if any:-

- a. Details of shareholdings or voting powers in excess of 2% in the Insurer and related parties of insurer:
- b. Details of any Business relationships with the Insurer or related parties of insurer:
- c. Details of any Business relationships between the Directors' and key management persons' former employers and the insurer or related parties of insurer:

15. Full details on the Key Management Persons' reputation and character:-

- a. whether the applicant has ever been declared bankrupt;
- b. details of convictions for any offence involving fraud or other dishonesty;
- c. any disqualification from acting as a Director/ Key Management Person in any company;
- d. whether the Director or key person has ever been refused (or had revoked) a licence or authorization to carry on any regulated financial business during past five years;

16. Details of any censure or disciplinary action initiated by any government, regulatory or professional body:

17. Details of any dismissals from office or employment, subjection to disciplinary proceedings by the previous employer or refusal of entry into any profession or occupation:

18. Details of conviction, if any of the Key Management Person for any offence involving moral turpitude:



19. Whether any governmental, regulatory or professional body has ever investigated any employer, company or organisation with which the Key Management Person has been associated as a director, officer, manager or shareholder?
20. Whether any company or organisation with which the Key Management Person was associated as a director, officer, manager, has ever been wound up, gone into receivership or ceased trading either whilst the Key Management Person was associated with it; or within one year after the Key Management Person so ceased to be associated?
21. Please mention whether the Key Management Person is also an Insurance Corporate Agent, employee of Insurance Broker, Director or Employee of any other insurance intermediaries or Insurer or reinsurer in India or in any foreign country or director of any other company in India or in any foreign country.
22. Whether the Key Management Person is into the full time employment of the insurer? If not, then please give the full detail of other employment/ engagement:
23. Whether the key management person is on deputation / secondment from any other organisation?  
If yes,  
(a) furnish the full particulars of the Parent Organisation:  
(b) whether any remuneration etc is paid by the Parent Organisation, if so complete detail of the remuneration:
24. Whether the Key Person is into the full time / part time employment of any group company / associated company or the promoting partner of the insurer?

It is certified that the above information is true to the best of my knowledge and belief and if anything reported herein is found to be false or incorrect, then I shall be liable for appropriate action.

**Key Management Person**  
**(Applicant)**

**Chief Compliance Officer**

**Date:**

**Place:**

**Form – KMP -2**

**Annual Compliance Certificate for the Financial Year \_\_\_\_\_ in terms of  
Para No. \_\_\_\_\_ of Corporate Governance Guidelines on Reporting of Key  
Management Persons (KMPs)**

**Name of Insurance Company:**

It is hereby certified that all the provisions relating to '*Guidelines on appointment and Reporting of Key Management Persons (KMPs)*' issued by Insurance Regulatory and Development Authority as part of the Corporate Governance Guidelines, are duly complied with. It is further certified that the Company has in place procedures for complying with the provisions of '*Guidelines on appointment and reporting of Reporting of Key Management Persons*'.

Date:

Place:

Chief Compliance Officer  
Name of the Insurance Company  
Company Seal

**Annexure -5**  
**(Refer Para 8.1)**

**Form for seeking approval of the Authority to appointment of Managing/Whole-time Directors**

**Form A**

Sr. No.	Particulars	
1	State who is the competent authority to make the appointment / re-appointment in question and to fix the terms thereof. In case it is the Board of Directors, please quote the number of the relevant Article (A certified copy of the resolution (also mentioning the date thereof) of the competent authority, the General Body or the Board of Directors, as the case may be authorizing the appointment. re-appointment should be furnished along with the application. If the resolution is in vernacular, a certified copy thereof as translated into English may preferably be supplied)	
2	Full name of the person to be appointed / re-appointed:	
3	His present designation	
4	Insurance and / or other professional experience stating the name/s of the institution/s the position/s held therein and the approximate period of such experience	
5	State the name of the companies with their nature of business, in which the person also holds the position of Director / Managing Director.	
6	Terms of appointment / re-appointment (a) Whether the appointment/ re-appointment will be under a contract or agreement (If so, a copy of the draft contract or agreement should be furnished together with a copy of existing contract or agreement, if any) (b) Period of appointment / re-appointment if any fixed (in case the period of appointment / re-appointment should not exceed more than 5 years)	

	(c) Details of remuneration : The particulars should be furnished in the enclosed Form "C"	
7	<p>State whether</p> <p>(a) The insurance company complies with the provision of Section 32(A) (1) of Insurance Act, 1938</p> <p>(b) In case the appointee is an expatriate, the work permit from the Ministry of Home, Govt. of India has been taken (a certified copy of the work permit to be enclosed)</p>	
8	Position in regard to compliance with such provisions of the Companies Act, 2013 as are attracted particularly Sections 164 (disqualification of Directors), Section 188 (office or place or profit) and Section 196 (except Central Government approval). Please state the position with reference to each Section separately.	
9	Any additional facts which the insurance company may like to state in support of the application or otherwise.	

For-----

(Name of the Insurance Company)

-----

(Signature)

-----

(Designation)

Note: In case the application relates to the re-appointment of the Managing Director, also involving an amendment of the provision/s relating to his existing appointment or remuneration, only one application as in Form 'A' need be submitted.

**Form B**

Name of the Insurance Company: \_\_\_\_\_

Declaration and Undertaking by Managing Director / CEO (with enclosures as appropriate as on .....)	
<b>I. Personal Details of Director / CEO</b>	
a.	Full Name
b.	Date of Birth
c.	Educational Qualifications
d.	Relevant Background and Experience
e.	Permanent Address
f.	Present Address
g.	E-mail Address/ Telephone Number
h.	Permanent Account Number under the Income Tax Act and name and address of Income Tax Circle
i.	Relevant knowledge and experience
j.	Any other information relevant to appointment
k.	In case of foreign national, the whether Residential Permit has been issued by the Ministry of Home. If no, then reason thereof.
<b>II Relevant Relationships of Managing Director / Chief Executive Officer</b>	
a.	No. of shares held by the Managing Director/ Chief Executive Officer
b.	List of entities if any in which he /she is considered as being interested (Refer Section 184 and 2(49) of the Companies Act, 2013)
c.	Name of the Insurance Company in which he / she is or has been a

	member of the Board (Give details of period during which such office was held)	
d.	Fund and non-fund facilities, if any, presently availed by him / her and / or by entities listed in II (a) and (b) above from the Insurance Company.	
III	Records of professional achievements	
a.	Professional achievements	
IV	Proceeding, if any, against the Managing Director, Chief Executive Officer	
a.	If the Managing Director / CEO is a member of a professional association / body, details of disciplinary action, if any, pending or commenced or resulting in conviction in the past against him / her or whether he / she has been banned from entry of at any profession/ occupation at any time.	
b.	Details of prosecution, if any, pending or commenced or resulting in conviction in the past against the Managing Director.	
c.	Whether the director attracts any of the disqualifications envisaged under Section 164 of the Companies Act, 2013	
d.	Has the Managing Director / CEO or any of the entities at II (b) and (c) above been subject to any investigation at the instance of Government department or agency?	
e.	Has the Managing Director/ CEO at any time been found guilty of violation of rules / regulations / legislative requirements by customs / excise/ income tax / foreign exchange / other revenue authorities, if so give particulars	

f.	Whether the Managing Director at any time come to the adverse notice of a regulator such as SEBI, DCA, RBI	
V	Any other explanation/ information in regard to items I to III and other information considered relevant for judging fit and proper	

### Undertaking

I confirm that the above information is to the best of my knowledge and belief true and complete. I undertake to keep the insurance company fully informed, as soon as possible, of all events which take place subsequent to my appointment which are relevant to the information provided to above.

I also undertake to executive the deed of covenant required to be executed by all directors of the insurance company.

Place: \_\_\_\_\_

Date: \_\_\_\_\_

Signature of proposed appointee

Signature of Chief Compliance Officer

## Form C

### Details of Remuneration of the Chief Executive Officer / Managing director

Remuneration Etc	Existing	Proposed	Reasons for Change
(1)	(2)	(3)	(4)
<b>Remuneration:</b> 1. Salary 2. Dearness Allowance 3. House rent allowance 4. Conveyance allowance 5. Entertainment allowance 6. Other allowances, if any (please specify)			
<b>Perquisites:</b> 1. Free furnished house 2. Free use insurance company's car for (i) Official purposes (ii) For private purposes on compensating the company with suitable amount 3. Provident Fund / Gratuity / Pension 4. Traveling and Halting Allowance 5. Medical benefits 6. Other benefits, if any (please specify)			
<b>Bonus</b> 1. Performance Bonus 2. Annual Bonus 3. Employee Stock Options 4. any other incentive			

**Notes:**

- (1) If any of the benefits is of a non-monetary nature, e.g. free furnished house, its monetary equivalent as best as it is possible to determine should be given. In case the person to be appointed is already associated with the applicant company, particulars of his existing remuneration, etc. should be furnished
- (2) In case of performance bonus, please ensure that the amount paid each year is specifically approved by the Board of Director by passing a separate resolution for the payment of bonus.
- (3) The shares of the promoter/ group/ associate companies offered as ESOPs to the CEO/ MD/ Principal Officer of the insurance company shall be governed by the provisions SEBI (Share Based Employee Benefits) Regulations, 2014.
- (4) The shares of the insurance company/ unlisted companies offered as ESOPs to the CEO/ MD/ Principal Officer of the insurance company shall also be governed by the provisions SEBI (Share Based Employee Benefits) Regulations, 2014 except those relating to pricing of the shares.
- (5) If the company proposes to increase the emoluments and / or other benefits/ perquisites, the reasons therefore may be explained suitably under column no. (4)



**Appointment of Statutory Auditors by Insurers**

Section 12 of Insurance Act, 1938 prescribes that all insurers must be audited annually by the Auditors.

The Authority has reviewed the existing guidelines as regards appointment of auditors by insurers. In light of the amendments to the Insurance Act, 1938 and the Companies Act, 2013, Authority issues the revised guidelines as under:

Insurers shall comply with the provisions relating to appointment of Auditors as contained in the Companies Act, 2013. Additionally, insurers shall also comply with the provisions contained in these guidelines.

On recommendation of the Audit Committee, the Board shall appoint the statutory auditors, subject to the shareholders' approval at the general meeting of an Indian insurance company. The remuneration of the auditors shall also be approved by the shareholders in the general meeting.

**I. The eligibility, qualifications and other requirements of the auditors are detailed below:**

1. The Auditor of an insurer shall be a firm, including a Limited Liability Firm, constituted under the LLP Act, 2008.
2. The Firm should have been established and in continuous practice for at least 15 years.
3. The auditor should have:
  - a) a minimum of 5 full-time partners, of whom,
    - (i) at least 2 should have been in full-time practice as partners exclusively associated with the firm for a continuous period of minimum of 10 years, and
    - (ii) at least 2 other partners should have been in continuous association with the audit firm either as partner or as employee for a minimum period of 5 years, and

(iii) one partner in full-time practice with the firm as a partner for a minimum period of 1 year, and

(iv) out of the total partners of the firm, at least two should be FCA and be in practice for a minimum period of 5 years as FCA.

OR (Alternatively),

a) a minimum of 7 Chartered Accountants,

(i) of which not less than 2 are partners in full-time practice exclusively associated with the firm for a continuous period of a minimum of 10 years, and

(ii) at least 3 other Chartered Accountants in continuous association with the audit firm as partner or employee for a minimum period of 5 years, and

(iii) at least 2 Chartered Accountants should be FCA and be in practice for a minimum period of 5 years as FCA.

4. At least one partner or employee of the audit firm should possess the DISA/ CISA or equivalent qualification as may be recognized by the IRDAI from time to time and such partner or employee must be involved in the audit of the insurer.

5. The Audit firm should have a minimum experience of 5 years in audit assignments of entities in the financial sector. At least one of the joint statutory auditors of an insurer must have experience in insurance company audits of at least two years.

6. For the above purposes, a full-time partner shall not include a person who is –

a) a partner in other CA firm(s) or

b) employed full time/ part time elsewhere, practicing in own name, or engaged in practice otherwise or engaged in other activity which would be deemed to be in practice under section 2(2) of the Chartered Accountants Act, 1949.

7. Insurers should verify to their satisfaction that the proposed auditors meet the eligibility criteria before considering / approving their appointment. A declaration in the prescribed format (**Form A1**) shall be obtained by insurers at the time of appointment of auditors.

8. Any change in the constitution of the Audit firm/information submitted/certifications submitted which affects the eligibility criteria indicated in these guidelines, should be duly informed by the Audit firm to the Insurers within 7 working days of such change. In such cases, the insurer must ensure compliance with the guidelines within six months from date of such intimation.

9. The Authority must be informed about appointment of auditors within 7 working days thereof with a certification to the effect that the above eligibility stipulations have been met, as per the enclosed format **(Form A2)**.

10. Insurers are also advised to file a Return on an annual basis as per the enclosed **(Format A3)** giving details of Chartered Accountant firms engaged in various capacities like Statutory Auditors, Internal Auditors, Concurrent Auditors, Tax Auditors etc.

If it comes to the notice of the Authority that the appointment of auditors by insurers is not in line with these guidelines, the appointment is liable for cancellation and it shall be open for the Authority to consider such further action as may be deemed necessary in this regard.

An insurer shall not remove its statutory auditor without the prior approval of the Authority.

## **II. Maximum Number of Statutory Audits of Insurers that can be accepted by an audit firm at a time :**

- 1) An Audit firm shall be entitled to carry out Statutory Audits of not more than three Insurers (Life/Nonlife/Health /Reinsurer) at a time.

*Provided that an audit firm shall not have the audit assignments of more than 2 insurers in one line of business (i.e. life insurance, general insurance, health insurance and reinsurance) at a time.*

*Explanation:* An audit firm shall include its associate/ affiliate firms which are under the same network or other firm(s) whose name or trade mark or brand is used by the audit firm or any of its partners.

## **III. Rotation of Joint Auditors:**

- 1) Each insurer shall have a minimum of two auditors as joint auditors. A joint auditor of an insurer shall not include other associate/ affiliate firms which are under the same

network or whose name or trade mark or brand is used by the firm or any of the partners of the other joint auditor.

Provided that requirement of joint auditors would not be applicable in case of new insurers during their first year of operations. The requirement shall be mandatory from the financial year succeeding the year in which the Certificate of Registration is granted by the Authority.

- 2) An audit firm which completes the tenure of five years at the first instance in respect of an insurer may be reappointed as statutory auditors of that Insurer for another term of five years. Thus, an audit firm may be appointed as statutory auditors by an insurer for a continuous period of up to ten years. Thereafter there shall be a cooling-off period of five years. The incoming auditor during the cooling-off period shall not include other associate/ affiliate firm(s) which are under the same network or whose name or trade mark or brand is used by the firm or any of the partners of the retiring auditor. The retiring/ outgoing statutory auditor or its associate/ affiliate as explained above, shall not undertake the investment risk management, or concurrent audit of the insurer during cooling-off period.

It is clarified that the period for which the auditors have already served as on the date of effect of these guidelines shall be counted towards determining the term of appointment of statutory auditors for five years.

#### **IV. Statutory Auditors taking up other assignments:**

Statutory auditor may take up other assignments with the insurer subject to compliance of the following:

- a. Any additional work other than statutory audit that is entrusted to the auditor or other firms under the same network/ associate/ affiliate firms whose name or trade mark or brand is used by the audit firm or any of its partners, shall be specifically approved by the Board or Audit Committee thereof;
- b. The board or its committee while approving the assignment shall ensure the independence and integrity of the audit relationship.
- c. The aggregate of the fees for the additional work in a financial year shall not exceed the Statutory Audit Fees for the said financial year. It is clarified that the fees for the quarterly and half yearly audit/ review may be excluded for the purpose of calculating the aggregate fees for other assignments of the statutory auditors. All fees/ remuneration for such other work entrusted to the auditor or other firms whose name or trade mark or brand is used by the firm or any of its

partners shall be specifically disclosed in the Notes to Accounts forming part of the annual accounts of the insurer.

- d.** Insurers shall ensure compliance with Section 144 of the Companies Act 2013 and Chartered Accountants Act, 1949 and Regulations issued thereunder, and the applicable guidelines of ICAI issued from time to time in this regard, before considering to provide any additional work to Statutory auditors.

**Form A1**

**Declaration**

I / We, the undersigned, partner(s) of M/s \_\_\_\_\_ do hereby declare that the particulars as given above are as on \_\_\_\_\_ and are correct in all respects to the best of my / our knowledge and belief.

I / we hereby declare that

- a. none of our branches or associate/ affiliate concerns or LLP or other firm whose name or trade mark or brand is used by our firm or any of our partners, has/ have been appointed as statutory auditor of any insurer; or

the following of our branch or associate/ affiliate concern or LLP or other firm whose name or trade mark or brand is used by our firm or any of our partners has/ have been appointed as statutory auditors of insurer(s)

Name of the firm / associate / affiliate/ LLP	Name of the Insurer	Period of Appointment

- b. I /we have gone through the instructions and terms and conditions as specified in the guidelines issued by the Authority and affirm that our firm is compliant with the guidelines and in no way infringes the terms and conditions so prescribed.
- c. In case the terms or conditions so prescribed are found to have been infringed the application/appointment is liable to be rejected/ cancelled.
- d. I /we further recognize that if any of the terms or conditions is infringed or any of the statement made therein or information furnished in the application form is not correct, I /we would be liable for disciplinary action under the Chartered Accountants Act,1949 and regulations framed there under and under the provisions of Companies Act, 2013

e. No further assignment(s) by our audit firm or branch or associate or LLP or other firm whose name or trade mark or brand is used by our firm or any of our partners shall be taken which are not in compliance to these guidelines.

I / we hereby declare that audit / other assignment allotted on the basis of information furnished in the application form will not be accepted and carried out if the firm in whose name the application was made is not in existence at the time of audit.

Name of the Audit Firm:

Name of Partner    Membership No.    Signature\*

_____	_____	_____
_____	_____	_____
_____	_____	_____

Place: \_\_\_\_\_

Date: \_\_\_\_\_

\* The declaration should be signed by all the partners of audit firm undertaking audit of the insurer.

Name of the Insurer:

This is to inform that the following audit firms have been appointed as Statutory Auditors for (Name of the Insurer) for the financial year\_\_\_\_\_

Sl. No.	Name of the Audit Firm	Address	Telephone/ e-mail
1			
2			

The past record of Statutory Auditors of (Name of the Insurer) for the preceding ten years is as under:

Present Term	Year-4	Year -3	Year -2	Year -1	Current Year
Name of the Audit Firm					
1					
2					

Previous Term	Year-9	Year -8	Year -7	Year -6	Year- 5
Name of the Audit Firm					
1					
2					

It is certified that this appointment/reappointment is in compliance with the guidelines for appointment of auditors as a part of Corporate Governance Guidelines issued by the Authority .

Date:

Signed

Place:

Chief Executive Officer



Name of the Insurance Company:

Return of Auditors engaged for the financial year \_\_\_\_\_

Sl. No.	Auditors engaged as	Name of the Firm	Address/ Telephone/ e-mail
1.	Statutory Auditors		
	1.		
	2.		
2.	Internal Auditors		
	1.		
	2.		
3.	Concurrent Auditors		
	1.		
	2.		
4.	Tax Auditors		
	1.		
	2.		
5.	Any Other Capacity (to be specified)		
	1.		
	2.		

It is certified that the above information is correct and complete to the best of my knowledge and belief, and reflects the true position.

Date:

Signed

Place:

Chief Executive Officer

**Annexure – 8**  
**(Refer Para 11.4)**

**“Certification for compliance of the Corporate Governance Guidelines”**

I \_\_\_\_\_ (Name) hereby certify that \_\_\_\_\_ (company name) has complied with the corporate governance guidelines for Insurance Companies as amended from time to time and nothing has been concealed or suppressed.

Signature-----

Full Name and Designation”

**CORPORATE GOVERNANCE GUIDELINES – STATUS OF COMPLIANCE**

CG guidelines	Compliance Status  Y/N	If No, gaps in Compliance	Proposed Action for addressing the gaps
<b>I. Governance Structure - Board of Directors</b>			
<b>Board Composition</b>			
<b>1. Properly Constituted Board:</b>			
a. total number of Directors in the Board			
b. total number of Independent Directors			
c. Total number of non-executive Director			
<b>2. Independent Directors:</b>			
(i) <b><u>Independent Directors:</u></b> The Board of Directors is required to have a significant number of “Independent Directors” ( <b><i>as laid down in the Listing Agreement</i></b> ).			
(ii) <b><u>Whether</u></b> more than one member of a family or a close relative as defined in the Companies Act or an associate (partner, director etc) are on the Board of an Insurer as ‘Independent director’			
(iii) <b><u>Whether</u></b> the total number of Independent Directors are three or more			
<b>3. In case Chairman is Non-executive Chairman,</b>  Whether CEO is Whole-time Director of the Board			
<b>II. The Role and responsibilities of the Board and their Discharge</b>			

(i) As stipulated in Annexure I of the CG guidelines			
(ii) Whether the Board has set clear & transparent policy framework for translation of corporate objectives.			
(iii) Transparent Information flow from the senior management through well documented agenda notes and appropriate systems to serve as effective monitoring arrangements.			
(iv) Establish strategies and policies to define ethical individual behavior and corporate behaviour and ongoing, effective processes that ensure adherence to these strategies and policies			
(v) Areas for Board to focus: (in Nutshell) a. Overall direction of business b. Compliance with IRDA regulations, Insurance Act & other statutory requirements. c. Addressing conflict of interest d. Fair treatment of policyholders & employees. e. Sharing & disclosure of information f. Develop corporate culture & adherence to ethical standards			
<b>III. Fit and Proper Criteria:</b>			
(i) Whether there is a system to obtain an annual declaration from the Directors that the information provided in the declaration at the time of appointment/ reappointment has not undergone any change subsequently and the changes, if any, are apprised by the concerned Director to the Board			
(ii) Whether the Directors are also required to enter into a Deed of Covenant as per the format prescribed by the Authority with the insurance company.			
<b>IV. Conduct of Meetings:</b>			

(i) System that would make Co. Secretary responsible for proper conduct of the Board meetings and wCG guidelines_2016 (Final) (1)ith adequate time to deliberate on the major issues in detail.			
(ii) System of familiarizing new Directors with the background of the company's governance philosophy, duties and responsibilities of the Directors etc.			
(iii) Disclosure Requirements:			
a. The company must disclose the following in their annual report, inter-alia, Number of the meetings held of the Board of Directors and Committees mandated under the guidelines, in the financial year.			
b. Details of the composition of the Board of Directors and Committees mandated, setting out name, qualification, field of specialization, status of directorship held etc.			
c. Number of the meetings attended by the Directors and the members of the committee.			
d. Details of the remuneration paid, if any, to the directors (including independent directors)			
(iv) All the mandatory committees should meet at least four times in a year and not more than four months shall elapse between two successive meetings. The quorum shall be either two members or one third of the members of the committee whichever is greater, but in case an independent director is mandated to be in any of the Committees, he/she should be necessarily present to form the quorum.			

<b>V. Control Functions:</b>			
(i) Whether the Board has laid down the policy framework on various control systems as enumerated at para no. 6 of CG guidelines.			
(ii) Appropriate and effective group-wide risk control systems in addition to the systems for insurers within a Group. Boards of the insurers to lay down the requisite policy framework.			
(iii) Whether the Board has put in place a mechanism for assessment of effectiveness of working of its Committees at periodic intervals			
<b>VI. Committees</b>			
<b>A. Mandatory Committees</b>			
1) Audit Committee 2) Investment Committee 3) Risk Management Committee 4) Policyholders Protection Committee  5) Nomination and Remuneration Committee 6) Corporate Social Responsibility Committee 7) With Profits Committee			
<b>B. Optional Committees</b>			
1. Ethics Committee 2. Asset Liability Management (Its functions may be merged with Risk Management Committee)			
Status of Compliance with the guidelines in respect of optional committees			
<b>1. Composition of the Committees</b>			
(i) <b>Audit Committee :</b> a. whether the chairman of the audit committee is an independent Director with strong financial analysis background b. Appointment of statutory auditors to be recommended			

<p>by the Audit committee and appointed at the shareholders meeting.</p>			
<p><b>(ii) Investment Committee :</b></p> <p>a. Whether Committee consists of at least two Non Executive Directors, the Chief Executive Officer, Chief of Finance, Chief of Investment Division, Chief of Risk Management Function and wherever an appointed actuary is employed, the Appointed Actuary</p> <p>b. Whether any new appointment or removal of any member of the Investment Committee is also be approved by the Board and there is a system to communicate to the Authority within 30 days.</p> <p>c. Whether the IC meets at least once in a quarter and looks into various aspects of investment operations and monitors them.</p> <p>d. Whether the IC furnishes a report to the Board on the performance of Investments at least on a quarterly basis and provides analysis of its Investment portfolio and on the future outlook to enable the Board to look at possible policy changes and strategies.</p>			
<p><b>(iii) Risk Management Committee:</b></p> <p>a. Whether the risk management function is under the overall guidance and supervision of the Chief Risk Officer</p> <p>b. Whether the operating head of the risk management function (CRO) has direct access to the Board.</p> <p>c. Whether fraud monitoring policy and framework approved by the Board is in place.</p> <p>d. Whether fraud information is exchanged with insurers</p>			

and compliance with IRDAI guidelines on fraud is reviewed periodically			
<p><b>(iv) Policyholder Protection Committee:</b></p> <p>a. whether the minutes of the committee are placed as an agenda item to the Board.</p> <p>b. Whether expert/ consumer representative is part of the Committee</p>			
<p><b>(v) Nomination and Remuneration Committee:</b></p> <p>(a) Whether the Chairman of the Committee is an independent director;</p> <p>(b) whether at least one half of the committee are independent directors;</p> <p>(c) whether declarations of intending applicants (directors/ KMPs) are scrutinized by the Committee;</p> <p>(d) Whether the Committee recommends the policy for remuneration packages of the for the Directors and KMPs.</p>			
<p><b>(vi) Corporate Social Responsibility Committee:</b></p> <p>a. Whether CSR Policy is formulated and approved by the Board.</p> <p>b. Whether CSR expenditure is based on three years' profit</p> <p>c. Whether expenses on CSR charged to Policyholder's Account.</p>			
<p><b>(vii) With Profits Committee:</b></p> <p>(a) Whether the Committee is constituted by an independent director, CEO, Appointed Actuary and an Independent Actuary;</p> <p>(b) whether report of the Committee is appended to the Actuarial Report and Abstract;</p> <p>(c) whether asset share, expenses allocated and investment income attributed to the participating fund have been approved by the Committee</p>			



<p><b>C. Quorum / Frequency of the Meeting</b></p> <p>(i) Whether the mandatory committees (as specified in the Guidelines) meet at least four times in a year and not more than four months elapse between two successive meetings.</p> <p>(ii) The quorum shall be either two members or one third of the members of the committee whichever is greater, but in case an independent director(s) is/are mandated to be in any of the Committees, at least one is necessarily present to form the quorum.</p>			
<p><b>D. Merging of Committees</b></p> <p>(i) Whether any of the mandatory Board Committees have been merged</p> <p>(ii) If yes, names of the Committees</p> <p>(iii) How independence and objectivity of the merged Committees has been ensured by the Board</p>			
<p><b>VII. Disclosures in Financial Statements:</b></p>			
<p><b>(i) General Disclosures</b></p>			
<p>a. Basis, methods and assumptions on which the information is compiled.</p> <p>b. Quantitative &amp; qualitative information on the insurer's financial &amp; operating ratios viz., incurred claim, commission &amp; expenses ratios.</p> <p>c. Actual solvency margin details vis-à-vis the required margin.</p> <p>d. Financial performance including growth rate and current financial position of the insurer.</p> <p>e. Description of the risk management architecture.</p> <p>f. Details of number of claims intimated, disposed of &amp; pending with details of duration.</p> <p>g. All pecuniary relationships or transactions of non-executive directors.</p> <p>h. Elements of remuneration package of MD &amp; CEO and other individual directors.</p>			

<b>(ii) Whether disclosures in the Financial Statements -</b>			
<ul style="list-style-type: none"> <li>a. Are summarized under major groups.</li> <li>b. Contain all related party transactions.</li> <li>c. Include matters which have material impact on the financial position of the company.</li> </ul>			
<b>VIII. Outsourcing:</b>			
<ul style="list-style-type: none"> <li>a. Whether all outsourcing arrangements of the company have the approval of the Committee of Key Management Persons in terms of a Board approved Policy?</li> <li>b. Whether Every outsourcing contract contains explicit safeguards regarding confidentiality of data and all outputs from the data, continuing ownership of the data with the insurer and orderly handing over of the data and all related software programmes on termination of the outsourcing arrangement?</li> <li>c. Whether the arrangements are for a defined duration and have a provision for premature cancellation without attracting penalties?</li> <li>d. Whether annual review of all the outsourcing contracts is carried out and reported to the Board or its Committee?</li> </ul>			
<b>IX. Relationship with Stakeholders:</b>			
<p>The disclosures stipulations must address the following:</p> <ul style="list-style-type: none"> <li>a. financial statements accurately and fairly represent the financial condition of the insurer; and</li> <li>b. The insurer is running its business soundly and will be viable over the long term.</li> </ul> <p>In particular, the disclosure requirements of the participating policyholders and the</p>			

unit linked policyholders must be duly addressed.			
<b>X. Reporting to IRDAI</b>			
❖ Whether the Insurer has appointed Company Secretary as Compliance officer whose duty will be to monitor continuing compliance with these guidelines.			
<b>XI. Whistle Blower Policy</b>			
❖ Whether the Insurer has put in place a “Whistle Blower Policy” approved by its Board of Directors.			