

Item No. 17

Revised guidelines on Stewardship Code for insurers

1. Background:

- a. IRDAI issued guidelines on Stewardship Code for insurers in India vide circular ref: IRDA/F&A/GDL/CMP/059/03/2017 dated 20th March 2017. The code was made applicable from F.Y. 2017-18.
- b. On the basis of a decision in the meeting of the FSDC Sub-Committee held in April, 2016, SEBI prepared a draft circular on Common Stewardship Code. Though both the SEBI draft code and IRDAI code were based on the same principles drawn from the Stewardship Code of UK, the guidance proposed by SEBI was slightly different from the guidance prescribed for insurers by IRDAI, due to the special circumstances faced by the insurance industry and the existing legal and regulatory framework.
- c. It was decided during discussion between SEBI and IRDAI to align the codes to the extent possible and an internal review of the IRDAI guidance was undertaken. Guidance specified under the SEBI proposed Common Stewardship Code was carefully examined for its applicability to insurance companies. Accordingly, draft revised guidelines were prepared with a few modifications to the existing guidelines and feedback was also sought from the insurance companies through the respective Councils on the same. Comments and suggestions received from the insurance companies were compiled, reviewed and were suitably incorporated in the IRDAI draft revised guidelines.
- d. It was decided in the 23rd FSDC Sub-Committee meeting held on 27th Sept. 2019 that SEBI and IRDAI would mutually sort out the issues on Common Stewardship Code. Subsequently, SEBI issued instructions on Stewardship Code applicable to all Mutual Funds (MFs) and all categories of Alternative Investment Funds (AIFs), vide its circular ref: CIR/CFD/CMD1/168/2019 dated 24th Dec. 2019. The Authority also issued Revised Guidelines on Stewardship Code for Insurers in India vide its circular ref: IRDAI/F&A/GDL/CPM/045/02/2020 on 7th Feb. 2020 and it is to be complied by all the insurers from FY 2020-21. The revised guidelines issued by the Authority have been aligned with the Stewardship Code issued by SEBI while considering the special circumstances of the insurance industry.

2. Important changes in the revised guidelines:

- a. The clause requiring insurers to submit a report on status of compliance with the stewardship code on “comply or explain” basis has been withdrawn and all insurers are required to comply with all the principles given in the guidelines and submit an Annual Certificate of Compliance to the Authority on or before 30th June every year.
- b. Mandatory participation and voting on resolutions/proposals of the investee companies are prescribed based on the size of AUM of insurer and insurer’s holding in the paid up capital of investee company. In addition, insurers have the option to voluntarily participate and vote on resolutions/ proposals of investee companies even below the critical size of AUM.
- c. Disclosure of the quarterly voting activity is to be made by the insurers with regard to the voting activities in the investee companies in which the insurers have actively participated and voted on resolutions/proposals. This disclosure will form part of quarterly public disclosures. (Disclosure of voting activity for every proposed resolution of the investee company is mandated for MFs and AIFs by SEBI whereas the same has not been mandated by IRDAI as it will be extremely onerous on the insurers)
- d. The clause under the earlier guidance requiring insurers to have meetings with investee companies in a confidential manner has been withdrawn to ensure that insurers comply with the SEBI (Prohibition of Insider Trading) Regulations, 2015.
- e. Whenever services of any external service providers are used, the stewardship policy of the insurer shall provide for a mechanism to ensure that stewardship responsibilities are exercised diligently. Disclosure requirements mandated by SEBI for MFs and AIFs in case of use of proxy voting or voting advisory services (Details of advisory services, scope of such services, etc.), are not mandated by IRDAI as the same may be governed by the internal policies of the insurers. Though core function of investment cannot be outsourced, professional advices to arrive at voting decisions and research reports like Market survey data, Industry wide analysis, Business valuation, etc. may be sought from external agencies.
- f. The Audit Committee of the insurer will handle conflict of interest matters and monitor oversight on voting mechanism. Investment Committee will decide mechanisms to be opted and escalation of matters in specified cases of intervention in investee companies.

The revised guidelines on Stewardship Code for insurers in India issued by the Authority are placed at **Annexure - 1** for information of the Authority.