Ref: IRDAI/F&A/GDL/CPM/045/02/2020 Date: 7th February, 2020

Revised Guidelines on Stewardship Code for Insurers in India

To

CMDs/CEOs of All Insurers

Insurance companies are significant institutional investors in listed companies and the investments are held by them as custodians of policyholders' funds. The state of governance of the investee companies is an important aspect and insurance companies must ensure that investee companies maintain corporate governance standards at high level. Therefore, insurance companies should play an active role in the general meetings of investee companies and engage with the managements at a greater level to improve their governance. This will result in informed decisions by the parties and improve the return on investments of insurers which will ultimately benefit the policyholders.

In this regard, the Authority had issued a code for stewardship for the insurance companies vide its circular ref: IRDA/F&A/GDL/CMP/059/03/2017 on 20th March 2017. The code was in the form of a set of principles which the insurance companies needed to adopt and made applicable from FY 2017-18. Guidelines for each principle under the code had also been prescribed by the Authority. As per the code, insurer should have a board approved stewardship policy which should identify and define the stewardship responsibilities that the insurer wishes to undertake and how the policy intends to fulfill the responsibilities to enhance the wealth of its policyholders who are ultimate beneficiaries.

It has been decided to review the existing guidelines on stewardship code based on the experience in implementation, compliance by the insurers and the recent developments in this regard. Accordingly, a revised guidance on stewardship code has been prepared and placed herewith as Revised Guidelines on Stewardship Code for Insurers in India.

All the insurers need to review and update their existing stewardship policy based on the Revised Guidelines on Stewardship Code for Insurers in India within 3 months from the date of issue of the same and the updated stewardship policy needs to be approved by the Board of Directors. The updated policy should be disclosed on the website within 30 days of approval by the Board by all insurers, alongside the public disclosures. Any subsequent change / modification to the stewardship policy should be specifically disclosed at the time of updating the policy document on the website.

All insurers shall comply with all the principles given in the guidelines and submit an Annual Certificate of Compliance approved by the Board to the Authority as per Annexure B referred in the guidelines, duly certified by CEO and Compliance Officer on or before 30th June every year.

These guidelines are issued under the provisions of Section 34 (1) of the Insurance Act, 1938 for compliance by all insurers from FY 2020-21.

(Pravin Kutumbe)
Member (F&I)

Revised Guidelines on Stewardship Code for Insurers in India

Insurers should formulate a policy for Stewardship based on the principles indicated in these guidelines and get the approval of their Boards for implementation of the same. The principles and the guidance for the implementation are given below:

Stewardship Principles

❖ Principle 1

Insurers should formulate a policy on the discharge of their stewardship responsibilities and publicly disclose it

Guidance

Stewardship activities include monitoring and engaging with investee companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration.

The Stewardship policy should identify and define the stewardship responsibilities that the insurer wishes to undertake and how it intends to fulfill the same to enhance the wealth of its clients. The policy should address all the aspects relating to stewardship activity like Managing conflict of interest, Training of personnel, Monitoring of investee companies, Intervention in investee companies, Collaboration with other institutional investors and Voting activities. The policy should be approved by the Board of the insurer and should bring out how the insurer applies stewardship with the aim of enhancing and protecting the value for the ultimate beneficiary or client.

While the Boards of an insurer could decide to engage in all cases, it may also decide to selectively intervene based on its extent or level of investment. In such case, the policy should clearly identify the threshold (level of investment or any other criteria as may be determined by the Board) for intervention.

The policy should clearly state whether the insurer intends to use the services of external service providers such as institutional advisors. In case services of any external service providers are used, the policy should provide for the mechanism to ensure that in such cases, stewardship responsibilities are exercised diligently. 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. The policy should clearly provide that the ultimate stewardship responsibilities shall be discharged by the insurer.

The policy should be reviewed and updated periodically and the updated policy should be publicly disclosed on the insurer's website.

- **Principle 2**

Insurers should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it

Guidance

The stewardship policy put in place by the insurers should also cover the aspects of identifying and managing conflicts of interest with the aim of taking all reasonable steps to put the interests of their client or beneficiary first. The policy should identify scenarios of likely conflict of interest as envisaged by the Board and should also address how matters are handled when the interests of clients or beneficiaries diverge from each other.

Aspects covered in the stewardship policy with regard to conflict of interest may, among other issues, address the following:

1. Identifying possible situations where conflict of interest may arise. E.g. in case of investee companies being associates of the entity.

2. Procedures put in place by the entity in case such conflicts of interest situations arise which may, inter alia, include:

   a. Blanket bans on investments in certain cases.
   b. Referring such matters to Audit Committee.
   c. Clear segregation of voting function and client relations / sales functions.
   d. Policy for persons to recuse from decision making in case of the person having any actual / potential conflict of interest in the transaction.
   e. Maintenance of records of minutes of decisions taken to address such conflicts.

- **Principle 3**

Insurers should monitor their investee companies

Guidance

Insurers should have mechanisms for regular monitoring of their investee companies in respect of their performance, leadership effectiveness, succession planning, corporate governance, reporting and other parameters they consider important.

Insurers may or may not wish to have more participation through nominations on the Board for active involvement with the investee companies. An insurer who may be willing to have nominations on the Board of an investee company should indicate in its stewardship statement the willingness to do so, and the mechanism by which this could be done.

Aspects covered in the stewardship policy with regard to monitoring shall address the following:

1. Different levels of monitoring in different investee companies. E.g. companies where larger investments are made may involve higher levels of monitoring vis-à-vis companies where amount invested is insignificant from the point of view of its assets under management (AUM).

2. Areas of monitoring which shall, inter-alia, include:

a. Company strategy and performance – operational and financial.
b. Industry level monitoring and possible impact on the investee companies.
c. Quality of company management and Board, leadership.
d. Corporate governance including remuneration, structure of the Board (including Board diversity and independent directors) and related party transactions.
e. Risks including Environmental, Social and Governance (ESG) risks.
f. Shareholder rights and their grievances.

3. Identification of situations which may trigger communication of insider information and the procedures adopted to ensure SEBI (Prohibition of Insider Trading) Regulations, 2015 as amended time to time are complied with in such cases.

- **Principle 4**

<u>Insurers should have a clear policy on intervention in their investee companies</u>

Guidance

Insurers may decide their own engagement strategy and the stewardship policy should clearly set out the criteria/ circumstances in which they will actively intervene. The policy should provide for regular assessment of the outcomes of intervention by the insurer. Intervention should be considered regardless of whether an active or a passive investment policy is followed. Circumstances for intervention may, inter alia, include but not limited to, poor financial performance of the company, corporate governance related practices, remuneration, strategy, Environmental, Social and Governance (ESG) risks, leadership issues and litigations.

The mechanisms for intervention may include meetings / discussions with the management for constructive resolution of the issue and in case of escalation thereof, meetings with the Boards, collaboration with other investors and voting against decisions. Various levels of intervention and circumstances in which escalation is required may be identified and disclosed in the stewardship policy. This may also include interaction with the companies through the insurance councils in case of any industry level issues. Investment Committee of the insurer has to consider which mechanism to be opted and escalation of matters in specified cases.

❖ **Principle 5**

Insurers should have a clear policy for collaboration with other institutional investors, where required, to preserve the interests of the policyholders (ultimate investors), which should be disclosed

Guidance

For issues that require larger engagement with the investee company, insurers may choose to act collectively with other institutional investors in order to safeguard the interests of their investors. In such situations, the stewardship policy should guide their actions and extent of engagement.

❖ **Principle 6**

Insurers should have a clear policy on voting and disclosure of voting activity

Guidance

Insurers should exercise their own independent judgment as regards voting decisions on resolutions and should not automatically support the proposals of the Board of the investee company. The decisions should be aimed at promoting the overall growth of the investee companies and, in turn, enhance the value of their investors.

The stewardship policy should cover the aspects of voting activity. Audit Committee will monitor oversight on voting mechanism. Insurers should disclose their approach to stock lending and recalling lent stock in their stewardship policy.

Insurers should mandatorily undertake active participation and voting on resolutions/proposals of the investee companies under the following circumstances:

Size of the AUM of the Insurer (Rs. Cr)	Compulsory voting required, if the Insurer's holding of the paid up capital of investee company (in percentage) is
Up to 2,50,000	3% and above
Above 2,50,000	5% and above

In other cases, insurers may voluntarily participate and vote if such resolutions/proposals are considered significant and may have an impact on the value of investments of the insurer.

Disclosures have to be made by the insurers regarding the voting activity in the investee companies in which the insurers have actively participated and voted on resolutions/proposals. The disclosures will form part of Public Disclosures on website and have to be made on quarterly basis as per the timelines prescribed for quarterly public disclosures on website, in the given format at Annexure A.

- **Principle 7**

Insurers should report periodically on their stewardship activities

Guidance

In addition to the regular fulfillment of their stewardship activities, insurers should also provide a periodic report to their ultimate beneficiaries (policyholders) of how they have discharged their responsibilities, in a format which is easy to understand, as a part of public disclosures.

Compliance and Reporting:

The compliance with the aforesaid principles does not constitute an invitation to manage the affairs of a company or preclude a decision to sell a holding when this is considered in the best interest of clients or beneficiaries. The Board shall ensure that there is effective oversight on the insurer's stewardship activities and the Audit Committee of the Board shall exercise the same.

All insurers shall comply with all the principles given in the guidelines and submit an Annual Certificate of Compliance approved by the Board to the Authority as per Annexure B duly certified by CEO and Compliance Officer on or before 30th June every year.

Annexure A

Disclosure of voting activities in general meetings of investee companies in which the insurers have actively participated and voted:

Name of the Insurer: ______________________

Period of Reporting: ______________________

Meeting Date	Investee Company Name	Type of Meeting (AGM / EGM)	Proposal of Management/ Shareholders	Description of the proposal	Management Recommendation	Vote (For / Against / Abstain)	Reason supporting the vote decision

Place:

Signature of Compliance Officer

Date:

Name:

Annexure B

Annual Certificate of Compliance with regard to status of Stewardship Code principles

Name of the Insurer: ____________________ Date: ___________

Period of Report (FY): ___________________

We hereby certify that the guidelines given on Stewardship Code for Insurers in India by Insurance Regulatory and Development Authority of India are duly followed and all the principles detailed in the guidelines are duly complied with.

Compliance Officer
(Name and Signature)

Chief Executive Officer
(Name and Signature)