

# INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY OF INDIA

## NOTIFICATION

Hyderabad, the - -th , 2024

### Insurance Regulatory and Development Authority of India (Corporate Governance) Regulations, 2024

**F. No. IRDAI/Reg/- -/ - -/2024**—In exercise of the powers conferred by section 114A of the Insurance Act, 1938 (4 of 1938), as amended from time to time, sections 14 and 26 of the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999), the Authority in consultation with the Insurance Advisory Committee, hereby makes the following regulations, namely: -

#### Part – I

##### 1. Short title, Commencement & Applicability

- (1) These Regulations may be called the Insurance Regulatory and Development Authority of India (Corporate Governance for Insurance Companies) Regulations, 2024.
- (2) These Regulations shall come into force from 1<sup>st</sup> April 2024.
- (3) These Regulations shall be reviewed once in every three years from the date of notification, unless the review or repeal of amendment is warranted earlier.
- (4) The Regulations shall be applicable to all Insurers granted registration by the Authority except the branches of foreign reinsurers in India.

##### 2. Objective

The objective of the Regulations is to provide the governance structure for Insurers; responsibilities and functions of the Board and the management of Insurers which: (a) recognizes and meets the expectations of all stakeholders, particularly of policyholders; and (b) ensures adoption of sound and prudent principles and practices for the governance.

##### 3. Definitions

- (1) In these Regulations, unless the context otherwise requires –
  - (a) “Act” means the Insurance Act, 1938 (4 of 1938).
  - (b) “Authority” means the Insurance Regulatory and Development Authority of India established under sub-section (1) of Section 3 of the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999).
  - (c) “Competent Authority” means Chairperson or whole Time Member or Committee of the Whole Time Members or Officer(s) of the Authority, as may be determined by the Chairperson.
  - (d) “Board” means the board of directors of the Insurer.

- (e) “Chief Executive Officer/ CEO” and “Managing Director/ MD” shall have the same meaning ascribed to such term under the Companies Act.
  - (f) “Companies Act” means the Companies Act, 2013, as amended from time to time.
  - (g) “Key Managerial Persons” (KMPs) means as defined in the IRDAI (Registration of Indian Insurance Companies) Regulations, 2022 as amended from time to time. “Independent Director” shall have the same meaning ascribed to such term under the Companies Act.
  - (h) “Related Party” shall have the same meaning ascribed to such term under the Companies Act.
  - (i) “Whole-time Director” shall have the same meaning ascribed to such term under the Companies Act.
- (2) All words and expressions used herein and not defined in these Regulations but defined in the Companies Act or the Act, or in the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999) or Rules or Regulations made thereunder shall have the same meaning respectively assigned to them in those Acts or Rules or Regulations.

## Part – II

### 4. Board

- (1) Every insurer shall have a Board comprising of competent and qualified individuals as directors, with qualifications and experience that is commensurate with scale, nature, complexity of business and size of the Insurer, from various areas of financial and management expertise such as the lines of insurance underwritten by the insurer, actuarial and underwriting risks, finance, accounting, the role of control functions, investment analysis and portfolio management and obligations relating to fair treatment of customers, accountancy, law, banking, securities, economics, etc., to drive the strategies in a manner that would sustain growth and protect the interests of all the stakeholders in general and policyholders in particular.

Subject to compliance with Indian Insurance Companies (Foreign Investment) Rules, 2015, as applicable, every Insurer shall ensure optimum composition of Independent Directors and non-executive directors, subject to a minimum of three Independent Directors.

**Provided further that**, the MD/Chief Executive Officer shall be a Whole-time Director of the Board.

**Provided further that** the Chairperson of the Board shall be appointed with prior approval of the Competent Authority.

- (2) In case the number of Independent Directors falls below the minimum prescribed number, 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. Further, upon removal/ resignation of the Independent Director of the Insurer, the Insurer shall forthwith intimate the same within fifteen

days to the Authority.

- (3) An Independent Director shall fulfil the conditions as specified under the provisions of the Companies Act and/ or regulations issued by SEBI (as applicable) and/ or as may be specified by the Competent Authority.
- (4) The directors shall meet the “fit and proper” criteria, as specified under applicable regulations, at all times, on a continuous basis. The term, tenure and appointment of the directors shall be in compliance with the Companies Act and/ or the Act, as may be applicable.
- (5) The framework for appointment of common directors under section 48A of the Insurance Act, 1938 shall be as specified by the Competent Authority.
- (6) To ensure better and transparent governance, the Insurers shall ensure the following:
  - (a) adequate independence of the Board from the management as well as the promoters; and
  - (b) independence of control functions including compliance, risk, audit, actuarial and secretarial function.

## **5. Powers, Roles and Responsibilities of the Board**

- (1) The Board shall be responsible for formulating the overall strategy and direction to the Insurer, as well as overseeing its proper overall management.
- (2) The Board shall ensure that the Insurer has appropriate systems and functions for risk management and internal controls. Additionally, the Board will provide oversight to ensure that these systems and the functions that oversee them are operating effectively and as intended.
- (3) **Framing of policies and delegation of responsibilities –**
  - (a) The Board shall set a clear and transparent policy framework for translation of the corporate objectives. The Board shall ensure the formulation and adoption of various policies and strategies by the management and put in place a robust compliance system for all applicable laws and regulations.
  - (b) The Board, while laying down the policy framework shall consider various risks involved in carrying out its operations and their potential impact and shall follow the directions and guidance as specified by the Competent Authority.
- (4) In discharge of its responsibilities, the Board may delegate its responsibilities and authority to various Committees of the Board, but such delegation does not absolve the Board from its primary responsibilities. The Board shall mandatorily constitute the following Committees, who shall perform such roles and responsibilities as may be specified by the Competent Authority:
  - (a) All committees, as per the provisions of the Companies Act, applicable from time to time

Provided the audit committee, nomination and remuneration committee shall have chairperson as Independent Director.

(b) Risk Management Committee

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 including Asset-Liability Management.

(c) Policyholder Protection, Grievance Redressal and Claims Monitoring Committee (PPGR&CM Committee)

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 grievance-handling procedures, each insurer shall set up a PPGR&CM Committee. The Committee shall be headed by an Independent Director.

(d) Investment Committee

The Board of every Insurer shall set up an Investment Committee. The Committee shall be responsible to recommend investment policy and lay down the operational framework for the investment operations of the insurer.

(e) With Profits Committee

Every insurer transacting participating life insurance business shall constitute a 'With Profit Committee' with the objective of ensuring appropriate management of with profit business.

Provided that the Board may also constitute such other Committees to discharge its functions and responsibilities to comply with applicable regulatory framework, or as it deems fit.

Provided further that the constitution of PPGR&CM Committee shall not be mandatory in case of reinsurance companies.

- (5) The Insurers shall ensure that constitution of the above Committees, appointment and removal of its members, quorum and frequency of meetings, and its functioning shall meet the conditions and restrictions as may be specified by the Competent Authority.

(6) **Conflict of Interest –**

- (a) The Board shall put in place adequate systems, policies and procedures to address potential conflicts of interest and ensure compliance with the provisions of the Companies Act.
- (b) In an event where it is proposed that Insurer enters into a contract or arrangement with related parties of the Directors, the disclosures by Directors and necessary approvals, as required under the provisions of the Companies Act, read with the relevant rules thereunder, shall be

obtained.

- (c) The Board shall ensure that Key Management Persons shall not simultaneously hold two positions in the Insurer that could lead to conflict or potential conflicts of interest.

**(7) Related Party Transactions –**

- (a) The disclosures of related party transactions shall be made in accordance with the section 188 of the Companies Act and the procedure, as may be specified by the Competent Authority.
- (b) The Board shall formulate a Policy on Related Party Transactions laying down, at a minimum, the definition of transactions in the ordinary course of insurance business, method of determination of arm's length pricing, list of items requiring approvals under applicable laws and/or from Audit Committee, Board, Shareholders and any other matter relevant to the Related Party Transactions.
- (c) The Policy on Related Party Transactions shall be reviewed annually by the Board.

**(8) Capital Structure –**

The Board shall ensure continuous compliance with the statutory requirements on capital structure while planning or examining options for capital augmentation of the Insurer.

**(9) Evaluation of the Board including Independent Directors –**

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

**(10) Succession Planning –**

As part of the Board's internal governance practices, the Board shall consider and adopt appropriate steps and measures towards succession planning through a process of proper identification and nurturing of individuals for taking up directorship and KMP positions of the Insurer. The Insurer shall adopt a plan in this regard. The Board shall review such succession plan on an annual basis.

**(11) Groups and Conglomerates**

- (a) Insurers that are a part of a corporate group may also be subject to the regulatory requirements regarding governance policies and practices established for the group-level and implemented uniformly across the group.
- (b) In addition to the above, these practices may be reoriented at the level of the insurer taking into account its specific business and risk profile and sectoral regulatory requirements.

- (c) For the purposes of this Regulation, the term “group” shall have the same meaning as ascribed to such term in Section 6A of the Act.

### **Part – III**

#### **6. Chief Executive Officer and other Key Management Persons**

- (1) Every insurer shall appoint Managing Director/ Chief Executive Officer or Whole-time Director(s), strictly in accordance with the provisions of Section 34A of the Act. The Board shall carry out effective due diligence to ensure that the incumbent is ‘fit and proper’ before recommending his/ her name for necessary approvals.
- (2) The KMPs shall be appointed by the Board on recommendation of the Nomination and Remuneration Committee. Further, the appointment of Appointed Actuary shall be in accordance with the applicable regulations.
- (3) Chief Compliance Officer (CCO) shall be the designated Compliance Officer for submitting returns, reports and applications for necessary approvals. CCO shall be appointed for a minimum fixed tenure of not less than 3 years. The duties and responsibilities of the compliance function shall include at least the following:
  - a) Apprising the Board and senior management on applicable Acts, Rules, Regulations, Guidelines and Circulars.
  - b) Ensuring compliance by the Insurer with the provisions of applicable Acts, Rules and Regulations made thereunder, Guidelines and Circulars issued by the Authority and to the Supervisory and other observations made by Authority and/or any other authorities in a time bound manner.
  - c) Designing compliance framework and training on regulatory compliance actions.
- (4) In the event of any vacancy due to retirement, resignation or otherwise, the Authority shall be kept informed of such event and the reasons therefor. Further, Insurers shall initiate action for filling up of such vacant positions on a priority basis, to ensure that it shall not remain vacant for a continuous period of more than 180 days.
- (5) The Insurers shall collect and maintain details of their respective KMPs in such manner and format as specified by the Competent Authority. The Insurers shall also keep the Authority informed of any appointment or change in the individual person holding the KMP position.

#### **7. Remuneration to Directors and Key Management Persons( KMPs)**

- (1) Sound remuneration policy and practices are part of the Corporate Governance framework of an insurer. Insurers shall formulate and adopt a comprehensive Board approved remuneration policy for Chairperson, Non-Executive Directors and all the Key Managerial Persons.
- (2) The Insurer’s Board shall oversee the effective implementation of remuneration policy which does not induce excessive or inappropriate risk taking, is in line with corporate culture, objectives, strategies, identified risk appetite and long term interest of the insurer and has proper regard to the interests of its policyholders

and other stakeholders.

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

#### **Part – IV**

##### **8. Statutory Auditors**

- (1) The Insurers shall appoint a minimum of two auditors as joint statutory auditors and shall ensure that there are no conflicts of interest in their appointment. On recommendation of the Audit Committee, the Board shall appoint the statutory auditors, subject to the shareholders' approval at the general meeting of an insurance company. The remuneration of the auditors shall also be approved by the shareholders in the general meeting.
- (2) The Competent Authority may specify the eligibility norms, minimum qualifications, experience and other requirements, for appointment of statutory auditors which shall be adhered to by the Insurers.

#### **Part – V**

##### **9. Disclosure & Reporting Requirements**

- (1) Chief Compliance Officer (CCO) shall be responsible for ensuring and monitoring continuing compliance with these Regulations and the Master Circular issued hereunder. 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.
- (2) A report on the status of compliance with these Regulations and the Master Circular issued hereunder shall be filed on an annual basis within such time and in such format as prescribed by the Competent Authority. Further, there shall be a separate certification from the CCO, in such format as specified by the Competent Authority, which shall form part of the Annual Report.
- (3) All Insurers shall make necessary disclosures about the composition of its Board, meetings of Board & its Committees, details of attendance of meetings by directors and members of Committees, details of remuneration paid, if any, to all directors including Independent Directors, etc. in such manner and format as may be specified by the Competent Authority.

##### **10. Stewardship**

Insurance companies are significant institutional investors in listed companies and the investments are held by them as custodians of policyholders. 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. 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. Insurers shall formulate a Board approved Stewardship Policy based on the Master Circular issued under these regulations.

#### **11. Environment, Social and Governance (ESG)**

Every insurer shall have in place a board approved Environmental, Social and Governance (ESG) framework. The activities under ESG are to be monitored by the Board. The framework shall be reviewed by the Board on annual basis. Also, to facilitate the climate risk management, a comprehensive Climate Risk Management framework shall be established by the Board of insurer keeping in view their size, nature and complexity of operations.