

## **Item No. 32**

### **Draft Guidelines on Corporate Governance for Insurers in India, 2021**

The Guidelines on Corporate Governance for insurance companies were first issued by the Insurance Regulatory and Development Authority of India vide circular dated 5th August 2009. The same were amended and revised Guidelines were issued on 18th May 2016.

A committee was constituted vide Order ref IRDA/F&A/ORD/CG/069/03/20 dated 19.03.2020 to review the existing guidelines and suggest changes, if any, especially in light of the relevant Insurance Core Principles (ICPs) issued by International Association of Insurance Supervisors (IAIS) and application paper of IAIS on governance and control functions.

Basis the Report submitted by the committee and the experience gained over time, the following changes are now proposed in the Draft CG Guidelines:

1. Guidelines highlight the need for financial soundness and integrity in promoters. The committee kept the existing minimum lock-in requirement of 5 years from the date of grant of Certificate of Registration (R3). However, the same has been extended for the promoters of the reinsurance companies and FRBs in addition to insurance companies. It is also mandated that there shall be no transfer, pledge, or any other encumbrance of shares of the promoters within the lock-in period, without the prior approval of the Authority.
2. At present, any director can chair the meeting of the Board. However, the guidelines provide that within three years from the date of implementation of these guidelines, the Board shall ensure that the Chairperson of the Board should be an independent director. In the absence of the Chair of the board, the meetings of the board shall be chaired by an independent director.
3. The roles and responsibilities of the Chairman of the Board have been expanded. Further, where the position of Chairperson and Managing director is not

separated, the position shall be clearly demarcated and separated within a period of three years from the date of implementation of these guidelines. The insurers shall prepare a roadmap in this regard and the same shall be filed with the Authority within six months from the date of issuance of these guidelines.

4. It provides for effective separation between oversight and management functions. The separation of the roles of the Chair of the Board and the Chief Executive Officer (CEO) reinforces a clear distinction between accountability for oversight and management.
5. NRC, basis the information provided in the signed declaration, shall carry out due diligence/ scrutiny to determine if the proposed appointee is considered 'fit and proper' as per the laid down criteria for being appointed as director of the insurer. These criteria shall include suitability for the post by way of qualifications, technical expertise, track record, integrity, and other 'fit and proper' criteria.
6. The Board of Directors to evolve appropriate systems for ensuring 'fit and proper' norms for directors, which shall include calling for information by way of self-declaration, verification reports from the market, etc. As part of the due diligence/scrutiny references shall be made, where considered necessary to the appropriate authority/persons to establish compliance or otherwise with the 'fit and proper' criteria.
7. The scope of all the committees has been revisited and expanded based on the experience gained over the years and to bring more prudence, accountability, and probity in the governance.
8. The composition of the Audit Committee, Risk Management Committee and Nomination and remuneration Committee has been aligned with RBI's guidelines.
9. Corporate Social Responsibility Committee: the provisions relating to CSR aligned with the provisions of the Companies Act, 2013.

10. In order to provide clarity on reporting of KMPs, the Guidelines provide that to avoid conflict of interest within the first line of defense, a functionary in non-revenue generating function shall not be subordinate to a functionary who has revenue-generating responsibilities. However, the head of a non-revenue generating function within the first line of defense can report to the CEO of the insurer. Further, the Guidelines provide more clarity on the role of KMPs and Senior management.
11. CEO/WTB: The application for re-appointment must be made to the Authority at least six months prior to completion of tenure of the current incumbent and at least four months prior in case of a fresh appointment. The application for appointment shall have the names of two persons in the order of preference. Before submitting the application, the insurer shall complete its own assessment including the 'fit and proper' requirement as carried out for directors of the board.
12. The Guidelines define the role, eligibility Criteria, tenure of appointment, reporting line, duties and responsibilities of Chief Compliance Officer.
13. The scope and responsibilities of Internal audit are revisited and expanded.
14. Statutory Auditor: The maximum tenure for the appointment, cooling-off period, etc., is aligned with RBI. However, the number of audits that an audit firm can take up has been increased to five, subject to certain conditions.
15. Disclosures requirements to include medium-term and long-term strategy and Board Evaluation.

The draft of the revised guidelines is annexed herewith. We seek in-principle approval of the Authority to place the draft on the website of the Authority for comments of all the stakeholders.

Placed for consideration of the Authority.



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

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IRDAI (Corporate Governance) Guidelines, 2021

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## **IRDAI (Corporate Governance) Guidelines, 2021**

### **1. Background**

- 1.1.** Corporate Governance in insurance is understood as a system that promotes sound and prudent management and oversight of the insurer's business, which enables an insurer to be flexible and transparent. It provides scope to the insurance entities to be responsive to the developments affecting business operations by helping in making timely decisions. It also ensures that the powers are not unduly concentrated, through various principles, rules and processes that broadly seek to ensure the best interests of the shareholders, Board of Directors, management and other stakeholders. It provides the framework for attaining the company's objectives and encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosures. In case of the financial sector, where the entities accept public liabilities for fulfillment of certain contracts, the relationship is fiduciary with enhanced responsibilities to protect the interests of all stakeholders. Hence, the Corporate Governance framework should clearly define the roles & responsibilities and accountability of Board of Directors, Key Managerial Personnel, and Management while building checks and balances to ensure that all the responsibilities are effectively discharged.
- 1.2.** The overall robustness of the financial sector depends upon the safety and strength of its financial institutions. Thus the importance of Corporate Governance has received more emphasis in recent times which have witnessed major corporate failures. It may also be appreciated that the financial sector needs to have a more intensive governance structure in view of its role in the economic growth and development. As regards the insurance sector, the regulatory responsibility to protect the interests of the policyholders becomes paramount. It demands that the insurers have in place, among others, good governance practices for maintenance of solvency, sound long term investment policy and assumption of underwriting risks on a prudential basis. The emergence of insurers 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 effect and to ensure financial stability.
- 1.3.** The Insurance Regulatory and Development Authority of India (IRDAI) has outlined in general terms, governance responsibilities in the management of the insurance functions under various Regulations notified by it covering different operational areas. The contents have been compiled after reviewing extant notifications / circulars / instructions / guidelines/directions issued by the Authority and relevant guidance available in public domain including the Insurance Core Principles (ICPs) issued by International Association of Insurance Supervisors (IAIS).
- 1.4.** The Committee has reviewed the Corporate Governance Guidelines for insurers, 2016 and has decided to issue IRDAI (Corporate Governance) Guidelines, 2021 [Guidelines] for

adoption by the Insurers. These Guidelines shall replace the existing guidelines on Corporate Governance issued by the Authority and shall take effect from 01.04.2022. These guidelines shall supercede Corporate Governance Guidelines for Insurers in India, 2016.

- 1.5.** While the instructions shall come into effect from the date of issue of these guidelines, in order to enable smooth transition to the revised requirements, insurers are permitted to comply with these instructions latest by April, 2022.

## **2. Objectives**

- 2.1.** The objective of these guidelines is to ensure high ethical behavior and integrity on insurers carrying on operations in India. It envisages that the structure, responsibilities and functions of the Board of Directors and the Management of the insurer recognize the expectations of all stakeholders including that of the regulator. Efforts have been made to align the current regulatory framework with global best practices while being mindful of the domestic needs in the insurance sector.
- 2.2.** The structure of the Board shall be based on sound and prudent principles and practices of corporate governance. It shall ensure that the Board is able to quickly address issues of weak oversight and non-compliances. These guidelines therefore amplify on certain issues which are covered in the Insurance Act, 1938 and the regulations framed there under and include measures which are additionally considered essential by the Authority for adoption by the insurers.

## **3. Applicability:**

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

- (i) Insurers transacting the business of reinsurance may not be required to have the Policyholders' Protection Committee; and
- (ii) Branches of foreign reinsurers (FRBs) in India may not be required to constitute the Board and its mandatory committees as indicated herein. Further, branches of foreign reinsurers are required to comply with other provisions of these guidelines in so far as what is prescribed is not inconsistent with provisions of specific regulations applicable to them.

The contents of these guidelines must be read along with other governing statutes, regulations and licensing conditions applicable to insurers and the more stringent provisions shall be followed.

### **3.1. Provisions for FRBs**

As specified in para 3 above, for the Branches of Foreign Reinsurers in India, the guidelines shall be limited to the extent as are consistent with IRDAI (Registration and Operations of

Branch Offices of Foreign Reinsurers) Regulations, 2020. The brief of the same is provided below:

- a) The role of Board shall be performed by the Executive Committee of the India Branch Office of the foreign reinsurer with clearly defined delegation from the Board of the parent company;
- b) The composition of the Executive Committee shall comprise of at least three Key Management Persons including the CEO of the branch;
- c) The terms of reference for the Executive Committee shall be clearly laid down;
- d) The quorum of the Executive Committee shall be a minimum of two, including the CEO;
- e) The FRB shall annually submit to the Authority, the constitution of the Executive Committee. Any change in the Executive Committee during the financial year shall be reported to the Authority within 15 days of effecting such change;

**3.2. There shall be a Compliance Officer, designated as Chief Compliance Officer, responsible for monitoring of overall compliance function, with all the applicable laws and subordinated legislation made thereunder.** The guidelines accordingly address the various requirements broadly covering the following major structural elements of Corporate Governance in insurers: -

- a) Governance structure;
- b) Promoter Roles and Responsibilities;
- c) Board of Directors;
- d) Key Management Functions and Persons;
- e) Audit: Internal and External;
- f) Disclosures;
- g) Policyholders' Protection and Welfare;
- h) Relationship with stakeholders;
- i) Vigilance; Fraud Prevention and Mitigation;
- j) Conflict of Interest;
- k) Whistle Blower Policy;
- l) Interaction with the Regulator.

**3.3.** In these guidelines, the reference to the "Board" would apply to the "Board of Directors" and the term "Key Management Persons (KMPs)" shall be as defined in IRDA (Registration of Indian Insurance Companies) Regulations, 2002.

## **4. Governance Structure**

### **4.1. General**

The governance structure of the insurers is laid down in these guidelines. The same shall be applicable to all the insurers in India. It is relevant to mention here that the Corporate Governance requirements of companies listed on the Stock Exchanges are outlined in SEBI (Listing Obligations and Disclosure Requirements) Regulations 2018. The Insurers shall familiarize themselves with Corporate Governance structures and requirements appropriate



to the 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 the course of time.

#### 4.2. 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 across all levels 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. Promoter Roles & Responsibilities

- 5.1. The promoters of insurers shall have the requisite financial soundness and integrity to fulfill their roles. Further, the Authority prescribes a minimum lock-in period of five years from the date of grant of Certificate of Registration (R3) for the promoters of the insurers including reinsurers. There shall be no transfer, pledge or any other encumbrance of shares of insurers held by the promoters within the lock-in period, without the prior approval of the Authority. Further, any transfer, pledge or any other encumbrance on the shares of insurers held by the promoters beyond the limits specified in Section 6A (4) (ii) of Insurance Act, 1938 shall only with the prior approval of the Authority. In case of FRBs, lock in period of five years is imposed on the parent company of FRB. Thus, the parent company of FRBs is expected to remain in India for a minimum period of five years. Accordingly, a branch shall continue to represent its parent company during the lock-in period and shall not change its structure or represent any other company whether in the same group or otherwise.

Section 2 (7A) of the Insurance Act, 1938 has prescribed the ceiling of Foreign Investment in Indian Insurers at 74 per cent subject to the compliance to Indian Insurance Companies (Foreign Investment) Rules, 2021 (“the rules”). The manner of computation of Foreign Investment to satisfy this requirement is specified in the rules notified by Central Government read with Regulations issued by the Authority.

- 5.2. The Insurance Act, 1938 stipulates prior approval of the Authority for registration / transfer of shares, exceeding one per cent and /or which involve holding of share capital, after such transfer, in excess of 5 percent of the paid-up capital of the insurer. In case of a listed insurer, the threshold limit for transfer which requires approval of the Authority is specified in IRDAI (Listed Indian Insurance Companies) Guidelines, 2016. The threshold limit for transfer of shares will be computed for a financial year. Further, the said provisions are also applicable *mutatis mutandis* on creation of pledge or any other encumbrance on the shares of insurers held by the promoters. The Board of Directors of

the insurer shall ensure that the registration of shares is in compliance with the above provisions of the Act, Regulations and circulars issued by the Authority.

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

### **5.3. Roles and Responsibilities:**

- a. The promoters shall be aware of the nature and scope of its business;
- b. The Promoters shall understand their role as potential future sources of capital, as may be required to meet the growth requirements and/or the control level of Solvency;
- c. The ownership structure (including group structure, if applicable) shall be clearly defined;
- d. It shall be ensured that appropriate prudential solvency requirements are met at all times if the promoter is a financial sector entity;
- e. Promoters must disclose to the Authority about any legally valid judgment, debt or order that remains outstanding or has not been satisfied within a reasonable period.

## **6. Board of Directors**

### **6.1. Composition**

- a. The Insurance Act, 1938 read with other legislations stipulates that the insurers are required to have a properly constituted Board of Directors.
- b. Insurers 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 all the stakeholders in general and policyholders in particular.
- c. The Board shall comprise of individuals with balance of skills, diversity and expertise. the Board shall collectively possess the necessary qualifications commensurate with the size, complexity and risk profile of the insurer.
- d. 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, but shall not be less than 6 directors with commensurate balance of executive, non-executive and independent directors. 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.
- e. It is expected that the shareholders of the insurers elect or nominate directors across diverse areas of financial and management expertise such as accountancy, law, insurance, pension, finance, banking, securities, economics, human resources, marketing, IT including cyber risk, etc., with qualifications and experience that is

appropriate to the insurers. The Managing Director/ Chief Executive Officer shall be a whole time director of the Board.

- f. It is essential that the Directors possess the knowledge of structure of the group, and organisation; its process and products.
- g. The Board generally complies with the following requirements: -
  - i. The Board of Directors and Key Management Persons shall 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;
  - ii. 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 implications on the insurer;
  - iii. the maximum number of directors in the board of an insurer shall be governed by the provision of Companies Act, 2013. However, an Insurer shall ensure that majority of its directors are resident Indian citizens;
  - iv. Minimum number of Independent Director: The optimum composition of Independent and Non-Executive Directors enhances the quality of business judgment and benefits both the shareholders and the policyholders. This is especially important in respect of insurers under the conglomerate structure and where there is potential scope for transfer of risks and conflicts of interests that affect the group entities. The minimum number of Independent Directors shall be as under:
    - a. An insurer having foreign investment up to 49 percent shall have a minimum of three "Independent Directors" or  $1/3^{\text{rd}}$ <sup>1</sup> of the strength of Board of Directors, whichever is higher. However, this requirement is relaxed to 'two' independent directors for the initial five years from grant of Certificate of Registration. Thus, an Indian insurer within five year of operation, may have a minimum of two "Independent Directors" or  $1/3^{\text{rd}}$  of the strength of Board of Directors, whichever is higher;
    - b. An insurance company having foreign investment exceeding 49 percent shall have not less fifty per cent. of its directors as "Independent Directors", unless the chairperson of its Board is an independent director, in which case at least one-third of its Board shall comprise of independent directors.
    - c. The quorum for the board meetings shall be one-third of the total strength of the board or three directors, whichever is higher. Out of which,  $1/3^{\text{rd}}$  will be independent directors.

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<sup>1</sup> To be rounded off to next higher digit

- h. 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 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;
- i. The sitting fee and the remuneration of the independent directors shall be governed by guidelines issued in this regard by the Authority;
- j. Every independent director shall furnish a declaration of independence at the start of the financial year. However, in the event of the change in status of the independent director, the said director shall apprise the same immediately to the insurer;
- k. 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. Further, listed Indian insurers shall comply with the corporate governance guidelines issued by SEBI.

**6.2. The Role and responsibilities 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 insurer at the macro level. The Board shall 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 insurers need to consider interests of all stakeholders, and especially their policyholders as a specific group. Further, since there could arise a conflict of interest situation 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. Furthermore, it is expected that each of the board members shall act in good faith, honestly and reasonably, exercise due care and diligence; act in the best interests of the insurer and policyholders, putting those interests ahead of their own interests; exercise independent judgment and objectivity in decision making, taking due account of the interests of the insurer and policyholders; and not use individual position to gain undue personal advantage or cause any detriment to the insurer.

- 6.3.** The Board should ensure that the insurer has a well-defined governance structure which provides for the effective separation between oversight and management functions. The Board is responsible for providing the overall strategy and direction for the insurer and overseeing its proper overall management, while leaving the day-to-day management of the insurer to Senior Management.
- 6.4.** The Board should ensure that the position of Chair of the Board and Managing Director or Chief Executive Officer is clearly demarcated. The Board should ensure that the separation of the roles of the Chair of the Board and the Chief Executive Officer (CEO) reinforces a clear distinction between accountability for oversight and management. Further, at least one among the Chairperson of its Board, its Managing Director and its Chief Executive Officer, shall be Resident Indian Citizen.
- 6.5.** Thus, with a view to being effective, the Board, in active consultation with the Key Management Persons, shall establish and evaluate strategies and policies to address, at the minimum, a broad range of areas, as indicated below. There should concurrently be arrangements in place to review the policies from time to time to ensure that they are dynamic.
- a. Overall direction of the business of the insurer, including policies, and strategies;
  - b. Risk management across all the functions;
  - c. 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;
  - d. Obligation to fully comply with the Insurance Act, 1938 and the regulations framed there under, and other statutory requirements applicable to it;
  - e. Addressing conflicts of interest;
  - f. Adequate internal controls and fraud detection and redressal;
  - g. Ensuring fair treatment of policyholders and employees;
  - h. Ensuring information sharing with and disclosures to stakeholders, including investors, policyholders, employees, the regulators, consumers, financial analysts and/or rating agencies;
  - i. Establishing channels for encouraging and facilitating employees in raising concerns or reporting a possible breach of law or regulations, with appropriate measures to protect whistleblowers;
  - j. Developing a corporate compliance culture that recognizes and rewards adherence to ethical and compliance standards.

#### **6.6. Chairman of the Board – Roles & Responsibilities**

The Chair provides leadership to the board and is responsible for its effective overall functioning, including maintaining a relationship of trust with board members. The Chair shall possess the requisite experience, competencies and personal qualities to fulfil these responsibilities. The Chairperson shall ensure that board decisions are taken on a sound and well-informed basis. The Chair shall promote critical discussion, ensure that

dissenting views can be freely expressed and discussed within the decision-making process. The chair shall dedicate sufficient time to the exercise of all of its responsibilities.

Subject to the above, the insurers presently could have different structures with the Board of Directors headed by an Executive or Non-Executive Chairperson with distinct oversight responsibilities over the other Directors and Key Management Persons. Further, it is expected that whatever form is taken, the broader elements of good Corporate Governance are present and due care must be taken to prevent and address any conflicts of interest situations at all times.

However, within three years from date of implementation of these guidelines, the Board shall ensure that Chairperson of the Board should be an independent director. In absence of the Chair of the board, the meetings of the board shall be chaired by an independent director. Further, where the position of Chairperson and Managing director is not separated, the position shall be clearly demarcated and separated within a period of three years from the date implementation of these guidelines. The insurers shall prepare a roadmap in this regard and the same shall be filed with the Authority within six months from the date of issuance of these guidelines.

#### **6.7. Fit and Proper Criteria**

- 6.7.1. In line with the international and domestic norms, the Directors of the 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 the prior approval of the Authority); and (ii) the common directorship among life insurers.
- 6.7.2. Where an insurance intermediary / agent is proposed to be director of an insurance company, the following shall be ensured before seeking the prior approval of the Authority:
  - i. The Director shall not be working in the capacity of Chief Insurance Executive/Specified Person or any other officer responsible for soliciting insurance business for or on behalf of the insurance agent, intermediary or insurance intermediary while holding the position of a Director in the insurer;
  - ii. There shall be no conflict of interest or prejudice against the interest of the policyholders as a result of this continuation of directorship;
  - iii. Prior approval of the Authority shall be taken for payment of remuneration to the Non-Executive Directors other than for payment of sitting fees;
  - iv. Disclosure requirement as laid down under the Corporate Governance Guidelines, IRDA (Preparation of Financial Statement Auditor’s Report of Insurance Companies) Regulations, 2002 and any other applicable laws shall be complied with;
  - v. The appointment shall be subject to compliance of all other laws, rules and regulations made thereunder.

- vi. In addition to the disqualifications prescribed in Insurance Act, 1938 and Companies Act, 2013 or other applicable statutes for being appointed as director, the additional standards, at a minimum are as follows:
  - vii. shall not be holding the position of a Member of Parliament or State Legislature or Municipal Corporation or Municipality or other local bodies;
  - viii. shall neither have any professional relationship/business connection (such as audit/legal/advisory services/advisor/consultant etc.) with the insurer, nor shall be engaged in activities which might result in a conflict of interest situation with the insurer.
  - ix. A candidate being considered for a board position can submit a declaration that such relationships shall be severed before appointment as a director of the insurer; shall not be under adverse notice of any regulatory or supervisory authority/agency, or law enforcement agency or a professional body.
- 6.7.3. With a view to ensuring that the Directors comply with the above requirement at all times, 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.
- 6.7.4. Thereafter, the NRC, basis the information provided in the signed declaration, shall carry out due diligence/ scrutiny to determine if such person is considered 'fit and proper' as per its own laid down criteria for being appointed as director of the insurer. These criteria shall include suitability for the post by way of qualifications, technical expertise, track record, integrity, and other 'fit and proper' criteria.
- 6.7.5. For assessing integrity and suitability features like criminal records, financial position, civil actions initiated to pursue personal debts, refusal of admission to or expulsion from professional bodies, sanctions applied by regulators or similar bodies, previous questionable business practices, etc., should be considered. The Board of Directors may, therefore, evolve appropriate systems for ensuring 'fit and proper' norms for directors, which shall include calling for information by way of self-declaration, verification reports from market, etc. As part of the due diligence/scrutiny references shall be made, where considered necessary to the appropriate authority / persons to establish compliance or otherwise with the 'fit and proper' criteria.
- 6.7.6. The board, through the NRC, must draw assurance beyond doubt that actual/potential / perceived conflict has been disclosed as well as recognised, following which adequate measures have been taken to mitigate the perception of possibility of a director influencing a decision.
- 6.7.7. The NRC's discussions shall be properly recorded as formal minutes of the meeting and the voting, if done, shall also be noted.
- 6.7.8. Every year as on 31st March, a declaration to the effect that the information already provided by a director has not undergone any change shall be taken on record. Where the director informs that there is change in the information provided earlier, the insurer shall obtain from such director a fresh 'Declaration and Undertaking' incorporating the changes. Thereafter, NRC shall re-examine his/her being 'fit and proper' to continue as director. The due diligence in respect of the members of the

NRC shall be carried out by the board itself and the members of the NRC (being interested parties) shall not be involved in the process.

- 6.7.9. Fit & Proper criteria shall be an ongoing assessment. The due diligence enquiry results shall be disclosed to Authority, in case of identification of material information that may affect Fit & Proper criteria of the Director(s). Further, if assessment/enquiry leads to ineligibility in terms of Fit & Proper criteria, the Director(s) shall be replaced under intimation / disclosure to Authority providing reasons thereof.
- 6.7.10. It shall be ensured not to award any professional work to a person who has been a director of the insurer, for a cooling off period of two years after demitting office as such director.

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

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 of Directors.

#### **6.9. 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:

- a. Constitution
- b. Objectives
- c. Responsibilities
- d. Frequency of meeting / quorum requirements
- e. Appointment and removal of members
- f. Reporting to the Board

Insurers may establish several Committees to undertake specific functions depending on the size and level of 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, in addition, in case of listed companies, the Stakeholders Relationship Committee shall be formed.

However, the Authority advises all insurers that it is mandatory to establish Committees for Audit, Investment, Risk Management, Policyholder Protection, Nomination and Remuneration and Corporate Social Responsibility. Further, explicit records pertaining to the Agenda Items and minutes for each meeting of the Board and its committees and decisions taken thereon and Action Taken Reports for the decisions taken, shall be maintained by the insurers in accordance with the provisions of Companies Act and rules/regulations made there under.



In addition, Regulation 34 of the IRDAI (Non-linked Insurance Products) Regulations, 2019 requires constitution of the 'With Profits' Committee by life insurers comprising of one Independent Director of the Board, the Chief Executive Officer, the Chief Financial Officer, the Appointed Actuary of the Company and an Independent Actuary. Establishment of the Committees other than the mandatory committees is left to the option of the insurers.

The role and responsibilities of the Committees would broadly be as detailed below: -

**6.9.1. Audit Committee (mandatory)**

- i. Every Insurer shall constitute an Audit Committee.;
- ii. The Audit Committee shall oversee the preparation of 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;
- iii. The Chairperson of the Audit Committee shall 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 background. The Chair of the board shall not be a member of the ACB. The MD & CEO of the company should not attend the Audit Committee Meetings. The association of the CEO in the Audit Committee should be limited to occasions where the Audit Committee requires eliciting any specific information. 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. Further, the remaining members of the Committee shall be non-executive directors. All members should have the ability to understand all financial statements as well as the notes/ reports attached thereto.
- iv. The Chairperson of Audit Committee shall not chair any other committee of the Board;
- v. The Audit Committee shall oversee the efficient functioning of the Internal Audit Department and review its reports. The Audit Committee, shall have standing agenda of discussions with the head of Internal Auditor in every Audit Committee meeting in the absence of the Executive Management. The Committee will additionally monitor the progress made in rectification of irregularities and changes in processes wherever deficiencies have been observed;
- vi. The Audit Committee shall Satisfy itself on the adequacy of internal financial controls as well as provide oversight over financial risks. The insurers shall put in place a framework of internal financial controls/attendant with compliance systems to ensure timely and accurate recording of all transactions;
- vii. 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 by the Committee (although the approval of appointment, remuneration and removal of the

statutory auditors shall be done by the shareholders at the general body meeting);

- viii. The Audit Committee shall monitor that the senior management is managing the affairs of the insurer in accordance with the strategies and policies set by the Board, and the insurer's risk appetite, corporate values and corporate culture. The Audit Committee shall have oversight over 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;
- ix. The Audit Committee shall have discussions with the statutory auditors before the audit commences, on the nature and scope of audit as well as have post-audit discussions to address areas of concern. It shall monitor and assess the effectiveness of the external audit process throughout the audit cycle. In the instances of resignation or removal of an external auditor, the Audit Committee shall investigate the circumstances relating to such resignation or removal and ensure that prompt actions are taken to mitigate any identified risks to the integrity of the financial reporting process while keeping the Board well informed on the developments;
- x. The Audit Committee shall monitor implementation of Anti-fraud policy for effective deterrence, prevention, detection and mitigation of frauds;
- xi. Compliance of EOM Regulations by the insurer shall be the responsibility of Audit Committee;
- xii. The Audit Committee shall Act as a Compliance Committee to discuss with KMPs more particularly with Chief Compliance Officer, the level of compliance in the insurer and any associated risk and monitor and report to the Board on any significant compliance breaches. The Audit Committee shall also ensure compliance with guidelines on Stewardship Code for Insurers in India;
- xiii. The Audit Committee shall inform the Board of the outcome of the statutory audit and explain how the statutory audit contributed to the integrity of financial reporting and the role played by the Audit Committee in the process;
- xiv. The Audit Committee shall also review with the management, the annual/half yearly/quarterly financial statements before submission to the Board for approval, with reference to: -
  - a) changes, if any, in accounting policy and practices which may have significant bearing on the financial statements;
  - b) major accounting entries involving estimates based on exercise of judgement by the management
  - c) significant adjustments made in the financial statements arising out of audit findings;
  - d) matters required to be included in the Directors Responsibility Statement to be included in the Board's report in terms of Section 134(3)(c) of the Companies Act, 2013;
  - e) compliance with listing/disclosure and other legal requirements relating to financial statements;

- f) disclosure of related party transactions; and
  - g) modified opinion(s) in the draft audit report.
- xv. To perform its role, it shall have the power to obtain professional advice from external sources, have full access to information contained in the records of the insurer, seek information from any employee, obtain outside legal or other professional advice and secure attendance of outsiders with relevant expertise, if it considers necessary;
- xvi. The committee shall ensure that the remuneration of each KMP is disclosed in Annual Report.
- xvii. 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 insurers. However, it may be ensured that insurers comply with Section 144 of the Companies Act, 2013 before deciding to provide any additional work to the Statutory Auditors.

#### 6.9.2. **Investment Committee (mandatory)**

- i. The Board of every Insurer shall set up an Investment Committee. The composition of the Investment Committee shall be in accordance with the regulation 13.A of IRDAI (Investment) Regulations, 2016;
- ii. The Committee shall recommend the investment policy to the Board and lay down the operational framework for the investment operations of the insurer. The policy shall 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;
- iii. The Investment Committee shall be responsible for implementing the Investment Policy duly approved by the Board;
- iv. Members of the Committee should familiarise themselves and be conversant with the various Acts, Rules, Regulations, Guidelines, Circulars, etc., issued by the Authority;
- v. 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 make and review their investment decisions and ensure that support by the internal due diligence process is an input in making appropriate investment decisions;
- vi. 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;

- vii. The Investment Committee shall ensure that any new appointment, resignation or removal of any member of the Investment Committee is approved by the Board and there is a mechanism to communicate to the Authority within 30 days from the appointment or resignation as the case may be;
- viii. 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.

#### 6.9.3. Risk Management Committee (mandatory)

It is now well recognized that the sound management of an insurer, as in the case of other financial sector entities, is dependent on how well the various risks are managed across the organisation. In pursuit of development of a strong risk management system and mitigation strategies, the board of insurers shall set up a separate Risk Management Committee to implement the company's Risk Management Strategy. It shall be organised in such a way that it is able to monitor all risks across the various lines of business. It should not focus solely on compliance; it should also 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.

The RMC shall have a minimum of three Non-Executive Directors out of which two-third shall be independent directors. One of the independent directors shall have risk management expertise (i.e., direct / supervisory / regulatory oversight of the risk management function in the insurance industry, banking, and/or financial services).

The meetings of RMC shall be chaired by an independent director who shall not be a chair of any other committee of the Board. CRO shall function as the secretary of RMC and will report into the committee. Broadly, the Risk Management Committee shall:

- i. Establish effective Risk Management framework and recommend to the Board the Risk Management policy and processes for the organisation;
- ii. Set the risk tolerance limits and assess the cost and benefits associated with risk exposure
- iii. Review the Company's risk - reward performance to align with overall policy objectives;
- iv. Discuss and consider best practices in risk management in the market and advise the respective functions;
- v. Assist the Board in effective operation of the risk management system by performing specialised analyses and quality reviews;

- vi. Maintain an aggregated view on the risk profile of the insurer for all categories of risk including insurance risk, market risk, credit risk, liquidity risk, operational risk, compliance risk, legal risk, reputation risk, etc.;
- vii. 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.
- viii. 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;
- ix. Review the solvency position on a regular basis;
- x. Monitor and review regular updates on business continuity;
- xi. Ensure accuracy of internal and external data to identify, assess, mitigate risk, make strategic business decisions, determine capital and adequacy of liquidity;
- xii. Set the 'Risk Appetite' of the insurer based on its 'Risk Capacity' and further allocate business unit wide and risk taker wise risk limits;
- xiii. Hold the first line of defense accountable for breaches in the risk limits;
- xiv. Ensure that risk management functionaries are not charged with overseeing activities for which they previously held any revenue generating responsibility or participated in business decision-making or approval process;
- xv. Ensure that risk management function reports material exemptions, monitors positions to ensure that risk assumed remains within the framework of limits and controls or within exceptions approved;
- xvi. Regularly evaluate the risk faced by the insurer through the overall risk profile;
- xvii. Ensure a sufficiently robust data infrastructure, data architecture, information technology infrastructure in sync with developments such as balance sheet and revenue growth; increasing complexity of the business, risk configuration or operating structure; geographical expansion; mergers and acquisitions; or the introduction of new products or business lines;
- xviii. Establish effective communication/coordination with the Audit Committee to facilitate the exchange of information, effective coverage of all risks, including emerging risks, and adjustments to the risk governance framework of the insurer as may be necessitated;
- xix. Formulate the compliance policy of the insurer, containing the basic principles, the main processes by which compliance risks are to be identified and managed throughout all levels of the organisation;
- xx. Undertake quarterly reviews, to make an informed judgment on whether the insurer is managing its compliance risk effectively. In doing so, review the scope of compliance procedures and processes, mechanism for measurement/ assessment of compliance risk of the insurer, reporting requirements, change in the compliance risk profile, etc.;
- xxi. Formulation of a Fraud monitoring policy and framework for approval by the Board;
- xxii. Review compliance with the guidelines on Insurance Fraud Monitoring Framework dt. 21st January, 2013, issued by the Authority.

#### 6.9.4. Policyholder Protection Committee (mandatory)

The Authority is mandated by statute to protect the 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, 2017;
- ii. IRDAI (Insurance Advertisements and Disclosure) Regulations, 2021;
- iii. Master Circular on Insurance Advertisements;
- iv. Guidelines on Public Disclosure for insurance companies;
- v. Circulars on Handling and Disclosure of the Unclaimed Amounts pertaining to the Policyholders;
- vi. Guidelines on Grievance Redressal by Insurance Companies, 2010 and Handling of Complaints/Grievances from Policyholders, 2015;
- vii. Guidelines on Electronic Mode of Payments for Claims.

Insurers are also required to report on the number and nature of complaints to the Authority at monthly intervals to facilitate assessment of the governance and market conduct issues. 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 about both insurance products and complaint-handling procedures, each insurer shall set up a Policyholder Protection Committee. This provision is not applicable to reinsurers and FRBs.

The 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 the approval of the Board and ensure proper implementation of the same. The Committee shall 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: -

- a. Adopt standard operating procedures to treat the customer fairly including timeframes for policy and claims servicing parameters (TATs) and monitoring implementation thereof;
- b. Establish effective mechanism to address complaints and grievances of policyholders including mis-selling by intermediaries;
- c. 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;

- d. Review all the awards given by Insurance Ombudsman/Consumer Forums remaining unimplemented for more than three (3) months with reasons therefore and report the same to the Board for initiating remedial action, where necessary;
- e. Review the measures and take steps to reduce customer complaints at periodic intervals;
- f. Ensure compliance with the statutory requirements as laid down in the regulatory framework.
- g. 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;
- h. Ensure submission of details of grievances at periodic intervals in such formats as may be prescribed by the Authority;
- i. Ensure compliance of the material court judgements, consumer commission orders and regulatory directions/penalties on policyholder related issues of significance;
- j. Ensure that details of insurance ombudsmen are provided to the policyholders;
- k. Review of Claims Report, including status of Outstanding Claims with ageing of outstanding claims;
- l. Reviewing Repudiated claims along with analysis of reasons thereof;
- m. Status of settlement of other customer benefit payouts like Surrenders, Loan, Partial withdrawal requests. etc.;
- n. 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.

#### **6.9.5. Nomination and Remuneration Committee (mandatory)**

The Board shall constitute the NRC comprising of only the NEDs. The NRC shall consist of not less than three members of which not less than one- half will be independent directors of which one will be a member of the RMC. The meetings of the NRC will be chaired by an independent director. The Chairperson of the insurer shall not chair the meetings of the Committee. The meeting of NRC may be held as and when required.

The Nomination and Remuneration Committee shall scrutinise the declarations of intending applicants before the appointment / re-appointment/election of directors by the shareholders at the General Meetings. The Committee shall also scrutinise 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 insurers shall 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 that 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 shall 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 the approval of the Authority. Further, the overall management costs of the insurer are also governed by the limits prescribed in the Insurance Act, 1938 and Regulations framed there under to protect the interests of the policyholders. The setting up of a Nomination and Remuneration Committee should keep the above requirements in view. The envisaged role of the Committee includes the following aspects: -

- i. Formulate/adopt a comprehensive compensation policy for the board of directors and the key management functionaries;
- ii. Policy on remuneration package and any compensation payment, for the CEO, Executive Directors and Key Management Persons;
- iii. The remuneration package shall be aligned with the performance objectives laid down for the Key Management Persons;
- iv. Ensuring that the structure, size, competencies, skills at the board level and its Committees supports the strategic objectives and the statutory and regulatory requirements;
- v. Review whether the board candidates (a) have any conflict of interests that may impede their ability to perform their duties independently and objectively, and (b) are subject to undue influence from other persons (such as management or other shareholders), past or present positions held as well as personal, professional or other economic relationships with other members of the board or management (or with other entities within the group);
- vi. Formulation of criteria and policy:
  - (a) to determine 'fit and proper' of each category of directors;
  - (b) on remuneration of directors, senior managerial personnel besides other employees to ensure that the level as well as composition of remuneration is sufficient to attract, retain and motivate personages of the quality required to run the insurer prudently;



- (c) for evaluation of performance effectiveness of the board, board committees, chairman of the board, chairmen of the committees, board members, WTDs, NEDs, independent directors, senior management and other employees;
  - (d) establishing clear relationship of remuneration to performance through appropriate performance benchmarks; and
  - (e) succession planning of senior management functionaries and board of directors.
- vii. identifying the minimum and desirable qualification as well as persons who are qualified to take on board level or senior management level roles in accordance with the criteria laid down, and recommend to the board of directors their appointment along with the terms of appointment;
- viii. conduct annual evaluation of performance of the board, board committees, chair of the board, chair of the committees, board members, WTDs, NEDs, senior management functionaries and other employees as per the laid down policy;
- ix. carry out due diligence to determine if the identified person is considered 'fit and proper' as per the laid down criteria, for appointment as director;
- x. Based on the outcome of periodical assessment of functioning of the members of the Board, and its various committees, take appropriate corrective measures e.g. through training, skill development interventions, change in assignment, removal from committee/board, as may be required;
- xi. Proposed appointments/ re-appointments of Key Management Persons or Directors are in conformity with the Board approved policy on retirement/ superannuation.

**6.9.6. Corporate Social Responsibility Committee ('CSR Committee') (mandatory)**

The Companies Act, 2013 requires constitution of a CSR Committee if the conditions laid down under Section 135 are met. Insurers are required to comply with the requirements of CSR enshrined in the Companies Act, 2013 in both letter and spirit:

- (a) The constitution of CSR Committee will be as per Section 135 of the Companies Act, 2013;
- (b) The CSR Committee shall formulate a CSR policy and get it approved by the Board;
- (c) All provisions of the said Section 135 in this regard shall be complied with;
- (d) The expense incurred on CSR shall not be included for the purpose of computation of ceiling on Expenses of Management under Section 40B or Section 40C, as applicable

- (e) The expenses incurred on CSR activities shall not be charged to the Policyholders' Account.

**6.9.7. With Profits Committee (mandatory in case of life insurers):**

The Authority has issued the IRDAI (Non-Linked Insurance Products) Regulations 2019. In terms of these Regulations, every Insurer transacting life insurance business shall constitute a With Profits Committee. The composition of the Committee shall be in accordance with regulation 34 of IRDAI (Non-Linked Insurance Products) Regulations, 2019. The Committee shall meet as often as is required to transact the business and carry out the functions of determining the following:

- i. the share of assets attributable to the policyholders;
- ii. the investment income attributable to the participating fund of policyholders the expenses allocated to the policyholders

The report of the With Profits Committee shall be attached to the Actuarial Report and Abstract furnished to the Authority on an annual basis. The Board of the 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.

**6.10. 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 the 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, insurers may do so under the specific approval of their respective Boards under 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.**

**6.10.1. Ethics Committee (non-mandatory)**

The functions and responsibilities of the Ethics Committee shall include:

- i. Monitoring the compliance function and the insurer's risk profile in respect of compliance with external laws and regulations and internal policies, including its code of ethics or conduct;

- ii. Receiving reports on the above and on proactive compliance activities aimed at increasing the insurer'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;
- iii. 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;
- iv. 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;
- v. Approving compliance programmes, reviewing their effectiveness on a regular basis and signing off on any material compliance issues or matters.

As provided under Companies Act and SEBI Regulations, the Company under its whistle blower policy/ vigil mechanism shall make provision for direct access to the chairperson of the Audit Committee in appropriate or exceptional cases. The formulation of whistle blower policy is mandatory for insurers but the constitution of Ethics Committee is not mandatory. Therefore, where the Ethics Committee is not formed, the functions of the Committee shall be performed by the Audit Committee.

#### **6.10.2. 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 organisation's financial objectives, given the organisation's risk appetite, risk tolerance 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:

- i. Setting the insurer's risk/reward objectives and assessing policyholder expectations;
- ii. Quantifying the level of risk exposure (e.g. market, credit and liquidity) and assessing the expected rewards and costs associated with the risk exposure;
- iii. Formulating and implementing optimal ALM strategies and meeting risk-reward objectives at both product and enterprise level
- iv. Ensuring that liabilities are backed by appropriate assets and manage mismatches between assets and liabilities to ensure that these remain within acceptable monitored tolerance limits for liquidity, solvency and the risk profile of the entity;
- v. 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;

- vi. Regular review and monitoring of mismatch between assets and liabilities and the acceptable tolerance limits for mismatch, if any;
- vii. Ensuring that management and valuation of all assets and liabilities comply with standards, prevailing legislation and internal and external reporting requirements;
- viii. Submitting the ALM information before the Board at periodic intervals. Annual review of strategic asset allocation;
- ix. Reviewing key methodologies and assumptions including actuarial assumptions, used to value assets and liabilities;
- x. Managing capital requirements at the corporate level using the regulatory solvency requirements;
- xi. Reviewing, approving and monitoring capital plans and related decisions over capital related transactions (e.g. dividend payments, acquisitions, disposals, etc.);
- xii. Where an insurer does not constitute the Asset Liability Management (ALM) Committee, the functions of ALM shall form part of the Risk Management Committee.

**6.11.** 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 part of the composition of any of the Committees, **at least one independent director**, shall 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 the said Act. This condition shall be applicable even while appointing an alternate director to an Independent director in any of the Committees.

It is emphasised 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.

## **7. Key Management Functions and Persons:**

“Key Management Person” mean 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.*

- 7.1. The key management persons are responsible/ accountable to the board for sound and prudent management of day-to-day operations of the insurer. These functionaries shall necessarily be clearly identified as belonging to one of the three lines of defense. To avoid conflict of interest within the first line of defense, a functionary in non-revenue generating function shall not be subordinate to a functionary who has revenue generating responsibilities. However, the head of a non-revenue generating function within the first line of defense can report to the CEO of the insurer.
- 7.2. The Board must ensure that the roles and responsibilities allocated to the Senior Management and Key Management Persons in Control Functions are clearly defined so as to promote an appropriate separation of the oversight function from the management responsibilities; and provide for the oversight of the Senior Management.
- 7.3. The Senior management must contribute substantially to an insurer's sound governance through personal conduct i.e. by helping establish the "tone at the top" along with the board of the insurer.
- 7.4. Senior management shall adhere to the board approved Code of Conduct, meet the expectations of operational transparency to stakeholders while at the same time maintaining confidentiality of information to foster a culture of good decision-making.
- 7.5. Senior management shall make disclosures to the board of directors relating to all financial and commercial transactions where they have a personal interest that may have an actual / potential / perceived conflict of interest with the insurer.
- 7.6. Consistent with the directions given by the board /committees of the board, the senior management is responsible for implementation of business strategies, risk management systems, risk culture, processes, controls for managing risks – both financial and non-financial – to which the insurer is exposed. The Senior Management is responsible for complying with laws and regulations as well as internal policies. This oversight includes an effective overall system of internal controls as well as comprehensive and independent risk management, compliance, audit and vigilance functions.
- 7.7. A senior management functionary shall provide the board with all information which it needs to carry out its responsibilities, including to supervise senior management and to assess the quality of performance of a senior management functionary. In this regard, the concerned senior management functionary shall keep the board regularly and adequately informed of material matters, including
  - a. changes in business strategy, risk strategy and risk appetite;
  - b. the insurer's performance and financial condition;
  - c. breaches of risk limits or compliance rules;
  - d. internal control failures;
  - e. legal or regulatory concerns; and
  - f. issues raised because of the insurer's whistleblowing procedure.

All the KMPs shall act in good faith, honestly and in the best interest of organisation and all the stakeholders. The insurers shall lay down the roles and responsibilities of all the KMPs.

Senior management functionaries shall be selected based on pre-defined standards of knowledge and/or experience as well as a search and selection criteria established for the respective position by the NRC with approval of the board. The selection can be through an appropriate internal promotion and / or lateral hiring process to identify an internal or external candidate suitable for the position.

The insurer shall have an internal policy regarding succession planning in senior management. Senior management functionaries must have the necessary experience, competencies and integrity to manage the businesses including people under their supervision. They shall receive regular training to enhance their competencies and stay up to date on developments relevant to their areas of responsibility.

The organisation, procedures and decision-making of senior management shall be clear, transparent and designed to promote effective management of the insurer. This includes clarity on role, authority and responsibility of various positions within senior management, including the WTDs and the CEO.

Further guidance in respect of the CEO/Managing Director/ Whole Time Director, Chief Compliance Officer and Appointed Actuary is provided below:

**7.8. CEO/ Managing Director/ Whole-Time Director**

- 7.8.1. The Chief Executive Officer/Whole Time Director/ Managing Director of the insurer and other key functionaries are responsible for the operations and day to day management of the insurer 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 shall, therefore, carry out effective due diligence to establish that the new incumbent is 'fit and proper' before recommending the names for the Authority's approval. In case the CEO resigns or is terminated, the Authority shall be kept informed of such notice of resignation/termination within a period of 7 days of such notice, along with the reasons thereof. Further, the Authority shall be informed of the steps being taken by the insurer for filling up the said office within a further period of 30 days of said reporting.
- 7.8.2. 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 Authority, the Board should take proactive steps to decide on the continuance of CEO well in time before the

expiry of the 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.

- 7.8.3. 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.
- 7.8.4. The application for re-appointment must be made to the Authority at least six months prior to completion of tenure of current incumbent and at least four months prior in case of a fresh appointment. The application for appointment shall have names of two persons in the order of preference. Before submitting the application, the insurer shall complete its own assessment including the 'fit and proper' requirement as carried out for directors of the board
- 7.8.5. Individual insurer's board can prescribe the age limit for CEO/WTDS and the cooling off period within the guidelines stipulated in this regard by the Authority. The CEO shall be a person who has specialized knowledge and practical experience of the working of an insurer or a financial institution, or financial, economic or business administration. However, a person shall be disqualified from being a CEO, if he/she
- i. is also, a director of any company other than a subsidiary of the insurer, or a company registered under section 8 of the Companies Act, 2013, or
  - ii. is also, a partner of any firm which carries on any trade, business or industry, or
  - iii. has substantial interest in any other company or firm, or
  - iv. is a director, manager, managing agent, partner or proprietor of any trading, commercial or industrial concern, or is engaged in any other business or vocation.

## **7.9. Appointed Actuary (AA)**

The Authority has notified the IRDAI (Appointed Actuary) Regulations, 2017, detailing the procedure for the appointment, qualifications, powers along with duties and obligations of the Appointed Actuary. 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.

## **7.10. Chief Compliance Officer (CCO)**

7.10.1. The compliance function and its functionaries shall:

- (i) be accountable and report to the Audit Committee;
- (ii) be independent of any responsibilities related to the first line of defence, the risk management function and the third line of defence;
- (iii) assess compliance risk in all activities undertaken by the first line of defence;

- (iv) have sufficient standing, skills, resources and authority within the insurer to enable the CCO to carry out the assignments effectively and objectively;
- (v) collectively have or can access knowledge, skills, resources commensurate with the business activities and risks of the insurer;
- (vi) have full and unconditional access to the insurer's records, physical properties, management information systems, minutes of all consultative/ decision-making bodies;
- (vii) be empowered to conduct compliance reviews / investigations, whenever required;
- (viii) provide an independent assurance to the board, through the Audit Committee, without any management filtering, on quality and effectiveness of the insurer's internal controls put in place to manage compliance risk by the first line of defence;
- (ix) be able to ensure timely as well as effective correction of compliance risk assessment gap issues by senior management as well as escalation processes including enforcement and disciplinary process including dismissal;
- (x) ensure that regulatory guidelines / instructions / directions are promptly issued / disseminated within the organization (including senior management), with clarifications should the need arise;
- (xi) ensure that compliance culture pervades across the insurer, reinforced through interventions, including issuance of instructions meticulously, followed by continuous and mandatory training to the concerned employee on the instructions as well as by bringing to the notice of the employees, instances of compliance failure along with instructions for preventive measures;
- (xii) put in place approval mechanism for all new processes and products by the compliance function prior to introduction;
- (xiii) act as the contact point within the insurer for compliance queries from staff members including provide guidance to staff on the appropriate implementation of applicable laws, rules, standards in the form of policies, procedures and other documents such as compliance manuals, internal codes of conduct and practice guidelines. These shall be put in place with the objective of ensuring that solutions offered facilitate the first line of defence to achieve the business objectives in a fully compliant manner; and
- (xiv) put in place a mechanism to ensure that compliance to various supervisory requirements as communicated by the Authority from time to time, are achieved within the specified timeframe.

7.10.2. As part of robust compliance system, insurers are required, inter-alia, to have an effective compliance culture, independent corporate compliance function and a strong compliance risk management programme at the insurer's and group level. Such an independent compliance function is required to be headed by a designated Chief



Compliance Officer (CCO) selected through a suitable process with an appropriate 'fit and proper' evaluation/selection criteria to manage compliance risk effectively.

- 7.10.3. Policy – An insurer shall lay down a Board approved compliance policy clearly spelling out its compliance philosophy, expectations on compliance culture covering Tone from the Top, Accountability, Incentive Structure and Effective Communication & Challenges thereof, structure and role of the compliance function, role of CCO, processes for identifying, assessing, monitoring, managing and reporting on compliance risk throughout the insurer. This shall, inter-alia, adequately reflect the size, complexity and compliance risk profile of the insurer, expectations on ensuring compliance to all applicable statutory provisions, rules and regulations, various codes of conducts and the insurer's own internal rules, policies and procedures, and creating a disincentive structure for compliance breaches. The insurer shall also develop and maintain a quality assurance and improvement program covering all aspects of the compliance function. The quality assurance and improvement program shall be subject to independent external review periodically (at least once in three years). The policy shall be reviewed at least once a year;
- 7.10.4. Tenor for appointment of CCO-The CCO shall be appointed for a minimum fixed tenure of not less than 3years. The Audit Committee / Managing Director (MD) & CEO should factor this requirement while appointing the CCO;
- 7.10.5. Transfer/Removal of CCO-The CCO may be transferred / removed before completion of the tenure only in exceptional circumstances with the explicit prior approval of the Board after following a well-defined and transparent internal administrative procedure;
- 7.10.6. Eligibility Criteria for appointment as CCO-
- a. Rank-The CCO shall be a senior executive of the insurer, preferably not below two levels from the CEO. The CCO can also be recruited from market;
  - b. Experience: The COO shall have overall experience in the insurance and financial services and should have worked in the Audit / Finance/ Compliance/ Legal / Risk management functions.
  - c. Skills: the CCO shall have good understanding of industry and risk management, knowledge of regulations, legal framework and sensitivity to supervisors' expectations.
  - d. Others: No vigilance case or adverse observation from the Authority shall be pending against the candidate identified for appointment as the CCO.
- 7.10.7. Reporting line: The CCO shall have direct reporting lines. In case the CCO do not report to the Audit Committee of the Board, then the Audit committee shall meet the CCO quarterly on one to one basis, without the presence of the senior management. The CCO shall not have any reporting relationship with the business verticals of the insurer and shall not be given any business targets.

7.10.8. Duties and responsibilities of the compliance function – The duties and responsibilities of the compliance function shall include at least the following activities:

- i. To apprise the Board and senior management on the legislative developments, rules, regulations, and any further developments as may impact the insurer;
- ii. To provide clarification on compliance related issues;
- iii. To report promptly to the Board / AC / MD & CEO on major changes / observations relating to the compliance risk;
- iv. To periodically report on compliance failures/breaches to the Board/Audit Committee and circulate the same to the concerned functional heads;
- v. To monitor and periodically test compliance by performing sufficient and representative compliance testing. The results of the compliance testing should be placed before the Board and the Audit Committee;
- vi. To examine sustenance of compliance as an integral part of compliance testing and annual compliance assessment exercise.
- vii. To ensure compliance of Supervisory observations made by the Authority and/or any other directions in both letter and spirit in a time bound and sustainable manner.

7.10.9. The insurer's Board of Directors shall be overall responsible for overseeing the effective management of the insurer's compliance function and compliance risk. The MD & CEO shall ensure the presence of independent compliance function and adherence to the compliance policy of the insurer.

## **8. Audit**

### **8.1. Internal Audit**

8.1.1. An internal audit function, among other things provides independent review together with objective assurance on effectiveness of the insurer's functioning. Internal auditors must be competent and appropriately trained. Their main objective is to assist the board in achieving its goal by ensuring that all transactions are carried out as per systems and procedures while minimising the scope of malpractices/misconduct and misuse of funds.

8.1.2. An effective and efficient internal audit function constitutes the third line of defence in the system of controls. The internal audit function and its functionaries shall:

- i. be accountable and report only to the board through the Audit Committee;
- ii. be independent of audited activities i.e., have no responsibilities related to the first line of defence, the second line of defence and the vigilance function;
- iii. audit all activities undertaken by the first line of defence, the second line of defence and the vigilance function;
- iv. have sufficient standing, skills, resources and authority within the insurer to enable auditors to carry out their assignments effectively and objectively;
- v. collectively have or can access knowledge, skills and resources commensurate with business activities and risks of the insurer;
- vi. require internal auditors to adhere to professional standards applicable in India;

- vii. have access to records, physical properties of the insurer and entities with which there are outsourcing engagements, including access to management information systems, minutes of all consultative/decision-making bodies;
- viii. provide an independent assurance to the board, through the Audit Committee on quality and effectiveness of internal controls put in place by the first line of defence;

8.1.3. The communication channels between internal audit and all the other functions shall encourage reporting of negative as well as sensitive findings. All serious deficiencies shall be reported to the appropriate level of functionaries in the first and second line of defence as soon as they are identified. Significant issues posing a threat to the insurer's business shall be promptly brought to the notice of the Audit Committee and / or the board.

8.1.4. The head of internal audit function to be designated 'Head – Internal Audit (HIA)'. The role and responsibilities of the HIA shall be clearly defined. The HIA shall have overall responsibility for coordinating the identification of control gaps in the first line of defence, the second line of defence, the vigilance function as well as supervising the activities of other internal audit function staff.

## **8.2. External Audit including appointment, roles and responsibilities of Statutory Auditors**

The IRDA (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 5** 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 insurer's financial position or the organisation structure of its administration or accounting and of any criminal violations or material irregularities that come to their notice.

There shall be rotation of statutory auditors once in a period of three years. The statutory auditors should not have been assigned the responsibility of carrying out the internal audit of the insurer in the immediate three preceding years from the date of their appointment.

The external auditor shall report matters that are likely to be of material significance. This would include material fraud, suspicion of material fraud and regulatory breaches or other significant audit findings identified in the course of the audit. Such information

should be provided to the Authority without the need for prior consent of the insurer and the external auditor should be duly protected from liability for any information disclosed to the supervisor in good faith.

The Board and Audit Committee of the Insurers shall review the performance of Statutory Auditors on an annual basis. Any serious lapses / negligence in audit responsibilities or conduct issues on the part of the Auditors or any other matter considered as relevant shall be reported to the Authority within two months from the completion of the annual audit. Such reports should be sent with the approval / recommendation of the Board and Audit Committee, with the full details of the audit firm.

The secretarial audit shall be carried on in accordance with the provisions of Companies Act, 2013 and the report of said audit shall be tabled before the Audit Committee and the Board.

### **8.3. Access to Board and Audit Committee**

The Audit Committee should have discussions with the statutory auditors, internal auditors and secretarial auditors periodically about compliance status on internal financial controls and governance 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. The statutory, internal and secretarial auditors should also have access to the Board of Directors through the Audit Committee.

### **8.4. Disclosure Requirement**

8.4.1. Disclosure and transparency is also an important tenet of good governance. Various disclosure requirements prescribed by regulators are the minimum standards. Therefore, insurers are encouraged to voluntarily push the boundaries on this front.

8.4.2. The Insurers are required to comply with the disclosure requirements as applicable under Insurance Act, 1938 and Regulations framed there under, including but not limited to the following:

IRDA (Preparation of Financial Statements and Auditors' Report of Insurance Companies) Regulations, 2002;

8.4.3. The following disclosures shall be made on Remuneration of Non-Executive Directors and Managing Director /Chief Executive Officer / Whole-time Directors of Insurers:

i. Qualitative

- Information relating to the design and structure of remuneration processes and the key features and objective of remuneration policy
- Description of the ways in which current and future risks are taken into account in the remuneration processes.
- Description of the ways in which the insurer seeks to link performance during a performance measurement period with levels of remuneration.

ii. Quantitative disclosure:

- Number of WTD/ CEO/ MD and Key Management Persons having received a variable remuneration award during the financial year
- Number and total amount of sign on awards made during the financial year
- Details of guaranteed bonus, if any, paid as joining / sign bonus
- Total amount of outstanding deferred remuneration, split into cash, shares and share linked instruments and other forms.
- Total amount of deferred remuneration paid out in the financial year
- Breakup of amount of remuneration awarded for the financial year to show fixed and variable, deferred and non-deferred.

8.4.4. Circular on Public Disclosures by Insurers dated 28.01.2010

**8.5.** Further, 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 Report: -

- i. Quantitative and qualitative information on the insurer's financial and operating ratios, viz., incurred claims, commission and expense ratios.
- ii. Description of the risk management architecture.
- iii. Details of number of claims intimated, disposed off and pending with details of duration of pendency thereof.
- iv. All pecuniary relationships or transactions of the Non-Executive Directors vis-à-vis the insurance company.
- v. Elements of remuneration package (including incentives) of MD & CEO.
- vi. Elements of remuneration package (including incentives) of and the Key Management Persons as defined under these Guidelines Payments made to group entities from the Policyholders and/or Shareholders' Funds.
- vii. Any other matters, which have material impact on the insurer's financial position.
- viii. Disclosures about Meetings of the Board and its Committees.

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

- i. Number and date of meetings of the Board of Directors and Committees mandated under these Guidelines, in the financial year
- ii. Details of the composition of the Board of Directors and Committees mandated, setting out name, qualification, designation, field of specialisation, status of directorships, held etc.
- iii. Number of meetings attended by the Directors and members of the Committees

**8.7.** Disclosures on Board Evaluation: The Insurer may consider the following as a part of its disclosures on board evaluation:

- 8.7.1. Observations of board evaluation carried out for the year.
- 8.7.2. Previous year's observations and actions taken.
- 8.7.3. Proposed actions based on current year observations.

**8.8.** Medium-term and long-term strategy: The Insurer may consider the following with respect to disclosure of medium-term and long-term strategy of the entity:

8.8.1. It may disclose, under the Management Discussion and Analysis section of the Annual report, within the limits set by its competitive position, its medium-term and long-term strategy based on a time frame as determined by its board of directors.

8.8.2. The insurer may articulate a clear set of long-term metrics specific to the company's long term strategy to allow for appropriate measurement of progress.

## **9. Outsourcing Arrangements**

The Insurers shall comply with the IRDAI (Outsourcing of Activities by Indian Insurers) Regulations, 2017, with respect to all outsourcing arrangements. The Board of Directors shall approve and put in place an Outsourcing Policy. The Board of Directors, may delegate, the mandate of approving the outsourcing policy, to the Outsourcing Committee constituted under Regulation 8 of the Regulations. The Outsourcing Committee shall be responsible for effective implementation of the Outsourcing Policy.

## **10. Policyholders' Protection and Welfare**

As part of the overall corporate governance framework and to protect the interest of policyholders, the Board is ultimately responsible for ensuring that the insurer has in place effective systems of risk management and internal controls and functions to address the key risks it faces and for the key legal and regulatory obligations that apply to it. The Board shall ensure that a robust grievance handling system is in place at all times and the complaints received from policyholders are dealt in all seriousness. There shall be properly defined policies including TATs for handling such complaints/grievances.

Further, the Board shall define and oversee the implementation of norms for responsible and ethical behaviour. It should not allow any behaviour that would be incompatible with the protection of policyholders and that could lead to reputational risks. The norms for responsible and ethical behaviour should also make clear that employees are expected to conduct themselves ethically in addition to complying with laws, regulations and the insurer's internal policies.

## **11. Relationship with stakeholders**

The Board shall adopt a rigorous process for setting, approving, and overseeing the implementation of the insurer's overall business objectives and strategies, taking into account the long term financial safety and soundness of the insurer, the interests of all the stakeholders, and the fair treatment of customers. The Board ensures that the Senior Management has adequately documented and communicated these objectives and strategies to the Key Persons in control functions and all other relevant staff.

Subject to any reasonable commercial sensitivities and applicable privacy or confidentiality obligations, the insurer's communication policies and strategies should include providing to the stakeholders information such as the following:

- i. the insurer's overall strategic objectives, covering all lines of business;
- ii. the insurer's governance structures, such as allocation of oversight and management responsibilities between the Board and the Senior Management, and organizational structures;
- iii. members of the Board and any Board committees, including their respective expertise, qualifications, track-record, other positions held by such members, and whether such members are regarded as independent;
- iv. the general design, implementation and operation of the remuneration policy;
- v. major ownership and group structures, and any significant affiliations and alliances; and
- vi. material related-party transactions.

## **12. Vigilance; Fraud Prevention and Mitigation**

- 12.1.** The vigilance functions shall broadly include (i) Preventive vigilance; (ii) Surveillance and detection; and (iii) Punitive vigilance.
- 12.2.** The insurer shall formulate a vigil / whistle blower policy for directors, employees and third parties to report genuine concerns. The vigil mechanism shall provide for adequate safeguards against victimisation of director(s) or employee(s) or any other person who avail the mechanism and in appropriate or exceptional cases, provide for direct access to the chair of the Audit Committee / chair of the board.
- 12.3.** 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:
  - i. robust and efficient mechanism for the identification, assessment, quantification, control, mitigation and monitoring of the risks;
  - ii. appropriate processes for ensuring compliance with the Board approved policies, and applicable laws and regulations;
  - iii. appropriate internal controls to ensure that the risk management and compliance policies are observed;
  - iv. 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
  - v. Independence of the control functions, including the risk management function, from business operations, demonstrated by a credible reporting arrangement.
- 12.4.** Incorporating all the above requirements at a minimum, the board of the insurer, through the Audit Committee, is responsible for establishing an internal vigilance policy. This policy inter alia shall contain the basic principles as well as explain the main processes by which preventive vigilance, surveillance/detection and punitive vigilance is to be practiced.
- 13.** The Board shall be responsible for the oversight over the control functions of an Insurer.
- 14.** There shall not be any functional reporting by one KMP through another KMP. However, for operational convenience, administrative reporting structure may be permitted.
- 15.** 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.

## **16. Conflict of Interest**

**16.1.** 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 there under, 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, among others, Board level review of key transactions and 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 Conflict of interest' policy.

**16.2.** The policy shall inter alia include:

- i. director's duty to avoid, to the extent possible, activities that create/could create/have potential to create appearance of conflict of interests;
- ii. examples where conflicts can arise including when serving as a director;
- iii. a director's duty to promptly disclose any matter that may result, or has already resulted, in a conflict of interest;
- iv. a director's responsibility to abstain from voting or influencing in any manner, on any matter where the director may have a conflict of interest or where the director's objectivity or ability to properly fulfill the duties to the insurer may be compromised;
- v. appropriate procedures for transactions with related parties, to enable demonstration without any reasonable doubt, that such transaction have been carried out on an arm's length basis (including method of determination of arm's length pricing);
- vi. Definition of transactions in the ordinary course of the insurance business giving examples specific to the insurance company;
- vii. Method of determination of arm's length pricing;
- viii. List of items requiring approvals from various authorities, Audit Committee, Board and its committees, Shareholders, etc.;
- ix. Any other matter relevant to the related party transactions or conflict of interests.

**16.3.** The Policy shall be reviewed by the Board on a yearly basis. In the case of insurance cover being given by the insurer to the group companies, price/ premium quoted as per the F&U guidelines shall be considered as arm's length. The disclosures about payments made to group entities of the insurer out of the policyholders' and the shareholders' 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.



- 16.4.** Directors, Key Management Persons and Auditors shall not, in the individual capacity, simultaneously hold two or more positions in the insurer that could lead to conflict or potential conflict of interest. However, exception may be granted to the insurers within 5 years from the date of registration, with prior approval of the Authority. It may be noted that no further requests in this regard shall be entertained after the completion of 5 years. Further, it shall be ensured the appointment of members in different committees shall not result in any situation of conflict of interest.'
- 16.5.** Where a member of the Board of an insurer has common membership of the Board of any other entity within or outside the insurer's group, there should be clear and well defined procedures regarding the member's duty of loyalty to the insurer. It shall include appropriate disclosure and in some instances shareholder approval of such overlapping roles. In the event of a material conflict with the interests of the insurer, the member shall disclose such conflicts promptly to the Board of the insurer and its stakeholders as appropriate, and shall be required to refuse from discussion, voting or participating or taking any decisions in any matters in which he/she has an interest.
- 16.6.** The Board shall also oversee and be satisfied with the process by which appropriate public disclosure is made, and/or information is provided to supervisors, relating to the insurer's policies on actual/potential/perceived conflicts of interest. This shall include information on the insurer's approach to disclosing as well as managing actual/potential/perceived conflicts of interest that are not consistent with such policies, and conflicts that could arise because of the insurer's affiliation or transactions with other entities within the group.

## **17. Whistle Blower Policy**

- 17.1.** Insurers are well advised to put in place a "whistle blower" policy, where by a mechanism exists 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(s).

The Policy illustratively covers the following aspects:

- i. Awareness of the employees that such channels are available, how to use them and how their report will be handled;
  - ii. Handling of the reports received confidentially, for independent assessment, investigation and where necessary for taking appropriate follow-up action;
  - iii. A robust anti-retaliation policy to protect employees who come forward to report in good faith;
  - iv. Briefing to the board of directors on these developments.
- 17.2.** The policy should ensure that the corporate culture promotes timely and frank discussion and escalation of problems to the Key Management or to the Board. The Board should set and oversee the implementation of transparent policies and processes which promote and facilitate communication of concerns or information about unethical or uncalled for behavior/irregularities confidentially, without reprisal directly or indirectly, to the Board. The policy shall determine how and by whom legitimate concerns shall be investigated and duly addressed.

- 17.3.** The Board shall ensure that the norms for responsible and ethical behaviour are followed throughout the organisation. Further, no such behavior shall be allowed which would be incompatible with the protection of policyholders' interest and that could lead to reputational risks or improper or illegal activity, such as financial mis-reporting, fraud, money laundering, bribery and corruption. The employees are also expected to conduct themselves ethically in addition to complying with laws, regulations and the insurer's internal policies.
- 17.4.** The KMPs, including but not limited to the appointed actuary and the statutory / internal auditors have the duty to 'whistle blow', i.e., to report in a timely manner to the Authority if they become aware that the insurer has failed to take appropriate steps to rectify a matter which has a material adverse effect on its financial condition. This would enable the Authority to take prompt action before policyholders' interests are undermined.

## **18. Interaction with the Regulator**

- 18.1.** Effective corporate governance practices in the office of the insurance company will enable the Authority to have greater confidence in the work and judgment of its board, Key Management Persons and control functions. The insurer's Board shall have systems and controls to ensure appropriate, timely and effective communication with the regulator on the governance of the insurer, demonstrating the adequacy and effectiveness of its corporate governance framework.
- 18.2.** the insurers shall apprise the Authority of any changes in the Board Members, Key Persons, in Control Functions and significant Owners, and of any circumstances that may materially adversely affect their suitability.
- 18.3.** In assessing the governance practices in place, the Authority would:
- i. Seek confirmation that the insurer has adopted and effectively implemented sound corporate governance policies and practices;
  - ii. Assess the fitness and propriety of board members;
  - iii. Monitor the performance of the boards;
  - iv. Assess the quality of insurer's internal reporting, risk management, audit and control functions;
  - v. Evaluate the effects of the insurance company's group structure on the governance strategies;
  - vi. Assess the adequacy of governance processes in the area of crisis management and business continuity.
- 18.4.** The Authority would bring to the attention of the Board and senior management, concerns which have been detected by it through its various supervisory processes.

## **19. Reporting to the Authority**

- 19.1.** 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 SHALL be in place to ensure full compliance with the Guidelines from the financial year 2021-2022. Where such

compliance is not possible for any specific reason, the insurer shall write to the Authority for further guidance.

- 19.2.** Each insurer shall designate Company Secretary as the Compliance officer whose duty will be to monitor continuing compliance with these guidelines.
- 19.3.** The Annual Report of the insurers shall have a separate certification from the Compliance Officer in the format attached herewith as Annexure 6.
- 19.4.** 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 7.

## **Annexure 1: 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. There shall be proper oversight by the Board on ethics and corporate culture, related issues.
- 2) The board of an insurer has overall responsibility for the insurer, including culture, governance framework and approving as well as overseeing management's implementation of the insurer's strategic objectives. Directors have responsibilities to the insurer's overall interests, regardless of who appoints them.
- 3) These responsibilities articulated in following paragraphs in substantive terms are to be met by the board / committees of the board by setting agenda for its meetings and actions emanating therefrom as recorded in minutes of the meetings. The board / committees of the board shall maintain appropriate records of their proceedings at each meeting, including minutes of meetings, summaries of matters reviewed, main discussions, individual director's views, dissenting opinions, decisions taken, recommendations made and board resolutions. Minutes of the meetings of the board / committees of the board are to be signed by the chair of the meeting. In all matters related to meetings of the board and its committees' compliance shall be ensured inter alia with guidance issued from time to time by the Institute of Company Secretaries of India (ICSI).
- 4) The Board should set the following policies in consultation with the Management of the Company.
  - a. Corporate Culture Policy - defining the corporate culture, values & norms. It, along with its supporting policies, shall be communicated periodically across the organization;
  - b. Business Strategy Policy;
  - c. Underwriting Policy;
  - d. Retention and Reinsurance Policy – particularly defining the levels of retentions of risk and the nature and extent of reinsurance protection to be maintained;
  - e. Investment Policy – regarding investment of assets consistent with an appropriate asset liability management structure;
  - f. Human Resources Policy – regarding appointments and qualification requirements for human resources broadly and it shall be ensured that the incentive structure does not encourage imprudent behaviour. The Board shall clearly spell out policies and procedures relating to the appointment, dismissal and succession of the Key Management, and be actively involved in such processes.
- 5) The Board should define and set the following standards: -

- a. Standards of business conduct and ethical behaviour for directors and senior management;
  - b. Standards to be maintained in policyholder servicing;
  - c. Standards with respect to grievances of policyholders.
- 6) The Board would be responsible to provide guidance for implementation of all the policies and review the same periodically.
- 7) 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 the Authority 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 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.
  - f. Reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans, setting performance objectives, monitoring implementation and corporate performance, and overseeing major capital expenditures, acquisitions and divestments.
  - g. Monitoring the effectiveness of the insurer's governance practices and making changes as needed.
  - h. Selecting, compensating, monitoring and, when necessary, replacing key managerial personnel and overseeing succession planning.
  - i. Ensuring a transparent nomination process to the board of directors with the diversity of thought, experience, knowledge, perspective and gender in the board of directors.
  - j. Monitoring and managing potential conflicts of interest of management, members of the board of directors and shareholders, including misuse of corporate assets and abuse in related party transactions.
  - k. Ensuring the integrity of the insurer's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards.

In discharge of the above and other Governance functions, the Board may delegate the responsibilities to mandated/ other recommended Committees of Directors while retaining

its primary accountability. Further, the Board shall regularly meet with the committee members and Key Management to discuss and review the decisions made, information provided and any explanations given by the Key Management relating to the business and operations of the insurer.

8) Other responsibilities:

- a) The board of directors shall provide strategic guidance to the insurer, ensure effective monitoring of the management and shall be accountable to the listed entity and the shareholders.
- b) The board of directors shall set a corporate culture and the values by which executives throughout a group shall behave.
- c) Members of the board of directors shall act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the listed entity and the shareholders.
- d) The board of directors shall encourage continuing directors training to ensure that the members of board of directors are kept up to date.
- e) Where decisions of the board of directors may affect different shareholder groups differently, the board of directors shall treat all shareholders fairly.
- f) The board of directors shall maintain high ethical standards and shall take into account the interests of stakeholders.
- g) The board of directors shall exercise objective independent judgement on corporate affairs.
- h) The board of directors shall consider assigning a sufficient number of non-executive members of the board of directors capable of exercising

9) The Board shall ensure that members of various board committees possess requisite degree of independence and objectivity required to carry out the functions of the particular committee.

10) As a part of its regular monitoring and review of the insurer's operations, the Board should review whether the relevant policies and procedures, as set by the Board, are being properly implemented by Key Management and are operating as intended in alignment with insurer's overall business objectives and strategies, taking into account the long term financial safety and soundness of the insurer as a whole, the interests of its policyholders and other stakeholders, and the fair treatment of customers. Particular attention should be paid as to whether the responsibilities for managing and implementing the policies of the Board have been effectively discharged by those responsible. The Board should obtain reports at least annually for this purpose and such reports may include internal or external independent reports as appropriate.

11) It shall be the duty of all the members of the Board, individually and collectively, to:

- a. act in good faith, honestly and reasonably;
- b. exercise due care and diligence;
- c. act in the best interests of the insurer and policyholders, putting those interests ahead of his/her own interests;

- d. exercise independent judgment and objectivity in his/her decision making, taking due account of the interests of the insurer and policyholders; and
- e. not use his/her position to gain undue personal advantage or cause any detriment to the insurer.

12) Disclosure of information:

- a. Members of board of directors and key managerial personnel shall disclose to the board of directors whether they, directly, indirectly, or on behalf of third parties, have a material interest in any transaction or matter directly affecting the insurer.
- b. The board of directors and senior management shall conduct themselves so as to meet the expectations of operational transparency to stakeholders while at the same time maintaining confidentiality of information in order to foster a culture of good decision-making.
- c. Channels for disseminating information shall provide for equal, timely and cost efficient access to relevant information by users

## **Annexure 2: Declaration from the proposed/ existing Directors**

Name of the Insurance Company:

Declaration and Undertaking by Director

[With enclosures 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 concerned Income Tax circle
- 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)
- c. 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.

**III. Records of professional achievements:**

- a. Relevant professional achievements
- b. Other professional achievements

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

- i) 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.



- ii) 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.
- iii) Details of criminal prosecution, if any, pending or commenced or resulting in conviction in the last five years against the director
- iv) Whether the director attracts any of the disqualifications envisaged under Section 164 of the Companies Act, 2013?
- v) 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?
- vi) 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
- vii) Whether the director has at any time come to the adverse notice of any regulator including MCA? If so, give particulars.
- viii) Any other explanation/information in regard to items I to IV 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, to the best of my knowledge and belief, is 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 in the insurance company 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 Insurance Company**

Place:

Signature

Date:

Compliance Officer

### **Annexure 3: 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 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;
- iii) 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.
- iv) 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.
- v) The Director shall:
- a. disclose to the board other directorships, memberships of bodies, interest in other entities, activities and keep the board apprised of all changes therein;
  - b. disclose to the board the nature of interest, direct or indirect, in a contract or arrangement or any proposed contract or arrangement to be entered between the insurer and any other person.
  - c. intimate any interest in advance to the chair of the board/committee of the board;
  - d. provide the list of relatives as defined in the Companies Act, 2013 and rule 4 of the Companies (specification of definition) rules, 2014;
  - e. ensure confidentiality of the agenda papers/notes;

- f. use such degree of skill as may be reasonable to expect from a person with the same knowledge or experience as well as a board level position;
- g. keep informed about the business, activities and financial status of the insurer;
- h. seek appropriate orientation/induction and regularly update/refresh skills, knowledge as well familiarity with the insurer;
- i. strive to attend general meetings;
- j. pay sufficient attention, ensure that adequate deliberations are held before arriving at a decision including those related to approving related party transactions and assure that the same are in the interest of the insurer;
- k. help in bringing independent judgment to bear on the board's deliberations, especially on issues of strategy, performance, risk management, resources, key appointments and standards of conduct;
- l. ascertain to ensure that the insurer has an adequate and functional vigil mechanism;
- m. report concerns about unethical behaviour, actual or suspected fraud, or violation of the insurer's policy;
- n. safeguard the interests of all stakeholders particularly depositors and minority shareholders;
- o. attend meetings of the board/committees of the board with fair regularity and conscientiously fulfil obligations as director;
- p. not seek to influence any decision of the board for any consideration other than in the interests of the insurer;
- q. assist the insurer in implementing best governance practices<sup>75</sup>;
- r. refrain from any action that would lead to loss of independence<sup>76</sup>;
- s. be free from any business or other relationship which could materially interfere with the exercise of independent judgment in matters brought before the board or entrusted by the board;

**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. organizational 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 : 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 there under.
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.
3. A Key Management Person shall not report below the CEO/MD/WT.D.

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.

Directors, Key Management Persons and Auditors shall not, in individual capacity, simultaneously hold two or more positions in the insurance company that could lead to conflict or potential conflicts of interest. However, exception may be granted to the insurers within 5 years from the date of registration, with prior approval of the Authority. It may be noted that no further requests in this regard shall be entertained after the completion of 5 years. Further, it shall be ensured the appointment of members in different committees shall not result in any situation of conflict of interest.

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 180days.
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:
    - I. Name of the Previous Employer:
    - II. Nature of Employer's business:
    - III. Name of the Regulatory body supervising the Employer:
    - IV. Last Designation (including duties & responsibilities):
    - V. Date of Appointment:
    - VI. 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 license 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 organization with which the Key Management Person has been associated as a director, officer, manager or shareholder?
20. Whether any company or organization 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, and 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: Appointment of Statutory Auditors by Insurers**

Section 12 of Insurance Act, 1938 prescribes that all insurers must be audited annually by the Auditors. Insurers shall comply with the provisions relating to appointment of Auditors as contained in the Companies Act, 2013 except as provided below. 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 minimum of 5 full-time partners associated with the firm for a period of at least three years, 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,
  - (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,
  - (iii) the firm should have professional staff of not less than 18; and
  - (iv) out of the total partners of the firm, at least four should be FCA and be in practice for a minimum period of 5 years as FCA.
- 4.** At least two partners or paid CA of the audit firm should possess the DISA / CISA or equivalent qualification as may be recognized by the Authority 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 15 years out of which 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. The full-time partner's association with the firm would mean exclusive association. The definition of 'exclusive association' will be based on the following criteria:
  - a) The full-time partner should not be a partner in other firm/s. She / He should not be employed full time / part time elsewhere.
  - b) She / He should not be practicing in her/his 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. Professional Staff includes audit and article clerks with knowledge of book-keeping and accountancy and who are engaged in on-site audits but excludes typists/stenos/computer operators/ secretaries/subordinate staff, etc. There should be at least one-year continuous association of professional staff with the firm as on the date of appointment.
8. The audit firm, proposed to be appointed should be duly qualified for appointment as auditor of a company in terms of Section 141 of the Companies Act, 2013.
9. The audit firm should not be under debarment by any Government Agency, National Financial Reporting Authority (NFRA), the Institute of Chartered Accountants of India (ICAI), RBI or Other Financial Regulators.
10. The Insurers shall ensure that appointment of Auditors is in line with the ICAI's Code of Ethics/any other such standards adopted and does not give rise to any conflict of interest.
11. If any partner of a Chartered Accountant firm is a director in any Insurer, the said firm shall not be appointed as Statutory Auditors of any of the group entities of that Insurer.

**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 maximum five insurers transacting the business of Life / Nonlife / Health / Reinsurer at a time subject to the following
  - i. *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;*
  - ii. *an audit firm shall not have the audit assignments of more than 3 Indian insurers; and*

iii. *Out of the total 5 insurers, an audit firm shall have the audit assignment of not more than 2 of Foreign Reinsurance branch including Lloyds of India.*

- 2) Shared / Sub-contracted audit by any other/associate audit firm under the same network of audit firms is not permissible. The incoming audit firm shall not be eligible if such audit firm is associated with the outgoing auditor or audit firm under the same network of audit firms.

*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. Term and Rotation of Joint Auditors:**

- 1) Each insurer shall have a minimum of two auditors as joint auditors. The insurers shall decide on the number of Statutory Auditors based on a Board / Audit Committee Approved Policy, *inter alia*, taking into account the relevant factors such as the size and spread of assets, accounting and administrative units, complexity of transactions, level of computerization, availability of other independent audit inputs, identified risks in financial reporting, etc.

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 has been granted by the Authority.

- 2) In order to protect the independence of the auditors, on and after issuance of these Guidelines, Insurers shall appoint the auditors for a continuous period of three years, subject to the firms satisfying the eligibility norms each year.

Provided that where an auditor is already appointed for a period of five years in terms of earlier guidelines, the above said requirement shall come into force after the expiry of the remaining tenure of such auditor.

- 3) 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 three years. Where the remaining period of an audit firm is 3 year or more, such firm shall only be appointed after a cooling period of two years.

- 4) An audit firm which completes the tenure of three years at the first instance, in respect of an insurer should not accept statutory audit assignment of that Insurer in the next two years. During the cooling-off period of two years, the incoming auditor 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 retiring auditor. The outgoing statutory auditor shall not undertake the investment risk management, or concurrent audit or internal audit of the insurer during cooling-off period.
- 5) 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.
- 6) 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.
- 7) 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 **(FormA2)**.
- 8) 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, and Tax Auditors etc.
- 9) 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.
- 10) An insurer shall not remove its statutory auditor without the prior approval of the Authority.

#### **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 trademark or brand issued 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 there under, 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
- b. 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

- c. 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.
- d. In case the terms or conditions so prescribed are found to have been infringed the application/appointment is liable to be rejected/cancelled.
- e. 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
- f. 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.

## Form A2

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

### Form A3

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 6: 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

## Annexure 7: Corporate Governance Guidelines – Status of Compliance

(NO TICKBOX APPROACH – GAPS TO BE CLEARLY DEFINED)

CG guidelines	Compliance Status	Gaps in Compliance	Proposed Action for addressing the gaps
I. Governance Structure - Board of Directors			
Board Composition			
1. Properly Constituted Board:			
a. Total number of Directors in the Board			
b. Total number of Independent Directors			
c. Total number of Non-Executive Directors			
d. Total number of Women Directors			
2. Independent Directors:			
(i) <u>Independent Directors</u> : The Board of Directors is required to have a significant number of “Independent Directors” ( <i>as laid down in the Listing Agreement</i> ).			
(ii) <u>Whether</u> 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			

CG guidelines	Compliance Status	Gaps in Compliance	Proposed Action for addressing the gaps
Insurer as 'Independent director'			
(iii) <u>Whether</u> the total number of Independent Directors are three or more after completion of 5 years from date of registration			
3. Whether CEO is member of the Board			
II. The Role and responsibilities of the Board and their Discharge			
(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			

<b>CG guidelines</b>	<b>Compliance Status</b>	<b>Gaps in Compliance</b>	<b>Proposed Action for addressing the gaps</b>
ensure adherence to these strategies and policies			
<p>(v) Areas for Board to focus: (in Nutshell)</p> <p>a. Overall direction of business</p> <p>b. Compliance with IRDA regulations, Insurance Act &amp; other statutory requirements.</p> <p>c. Addressing conflict of interest</p> <p>d. Fair treatment of policyholders &amp; employees.</p> <p>e. Sharing &amp; disclosure of information</p> <p>f. Develop corporate culture &amp; adherence to ethical standards</p>			
III. Fit and Proper Criteria:			
<p>(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,</p> <p>if any, are apprised by the concerned Director to the Board</p>			
<p>(ii) Whether the Directors are also required to enter into a Deed of Covenant as per the format</p>			



<b>CG guidelines</b>	<b>Compliance Status</b>	<b>Gaps in Compliance</b>	<b>Proposed Action for addressing the gaps</b>
prescribed by the Authority with the insurance company.			
IV. Conduct of Meetings:			
(i) System that would make Co. Secretary responsible for proper conduct of the Board meetings and CGguidelines_2016 (Final) (1) with adequate time to deliberation 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			

<b>CG guidelines</b>	<b>Compliance Status</b>	<b>Gaps in Compliance</b>	<b>Proposed Action for addressing the gaps</b>
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.			
V. Control Functions:			
(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			

<b>CG guidelines</b>	<b>Compliance Status</b>	<b>Gaps in Compliance</b>	<b>Proposed Action for addressing the gaps</b>
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			
VI. Committees			
A. Mandatory Committees			
1) Audit Committee 2) Investment Committee 3) Risk Management Committee 4) Policyholders Protection Committee  5) Nomination and Remuneration Committee  6) Corporate Social Responsibility Committee  With Profits Committee			
B. Optional Committees			
1. Ethics Committee  2. Asset Liability Management (Its functions may be merged with Risk Management Committee)			

CG guidelines	Compliance Status	Gaps in Compliance	Proposed Action for addressing the gaps
Status of Compliance with the guidelines in respect of optional committees			
1. Composition of the Committees			
<p><b>(i)</b> Audit Committee:</p> <p>a. whether the chairman of the audit committee is an independent Director with strong financial analysis background</p> <p>Appointment of statutory auditors to be recommended by the Audit committee and appointed at the shareholders meeting.</p>			
<p><b>(ii)</b> Investment Committee:</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 30days.</p> <p>c. Whether the IC meets at least once in a quarter and looks into</p>			

CG guidelines	Compliance Status	Gaps in Compliance	Proposed Action for addressing the gaps
<p>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</p> <p>Strategies.</p>			
<p><b>(iii)</b> Risk Management Committee:</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>Whether fraud information is exchanged with insurers and compliance with IRDAI guidelines on fraud is reviewed periodically</p>			
<p><b>(iv)</b> Policyholder Protection Committee:</p>			

CG guidelines	Compliance Status	Gaps in Compliance	Proposed Action for addressing the gaps
<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)</b> Nomination and Remuneration Committee:</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)</b> Corporate Social Responsibility Committee:</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>			

CG guidelines	Compliance Status	Gaps in Compliance	Proposed Action for addressing the gaps
c. Whether expenses on CSR charged to Policyholder's Account.			
<p>(vii) With Profits Committee:</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>whether asset share, expenses allocated and investment income attributed to the participating fund have been approved by the Committee</p>			
<p>C. Quorum / Frequency of the Meeting</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>			

<b>CG guidelines</b>	<b>Compliance Status</b>	<b>Gaps in Compliance</b>	<b>Proposed Action for addressing the gaps</b>
<p>D. Merging of Committees</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>			
VII. Disclosures in Financial Statements:			
(i)  General Disclosures			
<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>			



CG guidelines	Compliance Status	Gaps in Compliance	Proposed Action for addressing the gaps
<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>			
(ii) Whether disclosures in the Financial Statements -			
<p>a. Are summarized under major groups.</p> <p>b. Contain all related party transactions.</p> <p>c. Include matters which have material impact on the financial position of the company.</p>			
VIII. Outsourcing:			
<p>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?</p> <p>b. Whether Every outsourcing contract contains explicit safeguards regarding</p>			

<b>CG guidelines</b>	<b>Compliance Status</b>	<b>Gaps in Compliance</b>	<b>Proposed Action for addressing the gaps</b>
<p>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?</p> <p>c. Whether the arrangements are for a defined duration and have a provision for premature cancellation without attracting penalties?</p> <p>d. Whether annual review of all the outsourcing contracts is carried out and reported to the Board or its Committee?</p>			
IX. Relationship with Stakeholders:			
<p>The disclosures stipulations must address the following:</p> <p>a. financial statements accurately and fairly represent the financial condition of the insurer; and</p> <p>b. The insurer is running its business soundly and will be viable over the long term.</p> <p>In particular, the disclosure requirements of the participating policyholders and the</p>			
Unit linked policyholders must be duly addressed.			
X. Reporting to the Authority			

<b>CG guidelines</b>	<b>Compliance Status</b>	<b>Gaps in Compliance</b>	<b>Proposed Action for addressing the gaps</b>
❖ Whether the Insurer has appointed Company Secretary as Compliance officer whose duty will be to monitor continuing compliance with these guidelines.			
XI. Whistle Blower Policy			
❖ Whether the Insurer has put in place a “Whistle Blower Policy” approved by its Board of Directors.			

