Item No.: 25

Guidelines on Remuneration of Non-Executive Directors and Managing Director /Chief Executive Officer/ Whole-time Director of insurers

In order to ensure sound remuneration or compensation practices and avoid situations resulting from excessive risk taking behavior due to inappropriate compensation structures or incentive plans and also taking into account the experience of past 5 years, it is proposed to replace the Guidelines on Remuneration of Non-Executive Directors and Managing Director /Chief Executive Officer/ Whole-time Director of insurers, issued vide circular ref IRDA/F&A/GDL/LSTD/154/08/2016 dated 05.08.2016.

The salient features of the draft Guidelines are as under:

1. The Guidelines cover the remuneration of Non-Executive Directors, CEOs /WTDs /MDs of private sector insurers including the format in which remuneration details are required to be submitted to the Authority.
2. For Non-Executive Directors (NEDs):
   i. Apart from sitting fee and other expenses, it provides for payment of remuneration commensurate with an individual director's responsibilities and demands on time, which are considered sufficient to attract qualified competent individuals, in the form of fixed remuneration. Such remuneration, however, shall not exceed Rs. Twenty lakh per annum for each such director excluding Chairman. For the Chairman of the Board, the remuneration may be decided by the Board of Directors of the respective company.
   ii. NEDs shall not be eligible for ESOPs. Prior approval of the Authority shall be required for any allotment of sweat equity to the NEDs.
   iii. The maximum age and numbers of years which a person can serve as NED, including as Chairman has been aligned with the guidelines issued by RBI.

3. For Whole Time Directors / Chief Executive / Managing Directors
   i. The remuneration structure shall be divided between fixed pay, perquisites and variable pay.
   ii. Fixed Pay should be reasonable and all the fixed items, including perquisites, shall be treated as part of fixed pay.

iii. Variable Pay

a) Limit on variable pay: at least 50% of the remuneration subject to maximum 300% of the fixed pay. Where variable pay is up to 200% of the fixed pay, a minimum of 50% of the variable pay should be via non-cash instruments. The same limit would be 70%, in case the variable pay is above 200% of the fixed pay.

b) Deferment – Minimum of 50% of the variable pay must be deferred on 'no faster than pro-rata' basis over a period of three years. No deferment required if the variable pay does not exceed Rs. 15 lakh.

c) Variable Pay Formula – a variable pay formula with identified weightage has been prescribed with 70% attributing to quantitative parameters and 30% to qualitative parameters. The insurer is required to specify the performance parameters on the basis of which the variable pay will be evaluated.

iv. Malus and Clawback – the deferred remuneration should be subject to malus/clawback arrangement in case of any negative trend in the performance of the insurer.

4. Tenure of MD&CEO and WTDs has been aligned with the RBI's stipulation in this regard.

5. Further, the remuneration guidelines also provide the broad principles for remuneration of risk control and compliance staff which are broadly in lines with RBI stipulations.

The guidelines have been formulated after inter-departmental consultations. A copy of the draft Guidelines is placed as annexure.

Placed for in-principle approval of the Authority for placing the draft of the Guidelines on the website of the Authority for seeking views / comments of all the stakeholders.