

# **Policy on Remuneration of Directors, Executive Director & CEO, KMPs and other Employees** **(Remuneration Policy)**

## **Version 1.0**

Prepared by	Human Resource Team and Corporate Secretarial Team
Approved by	Board of Directors on recommendation of Nomination and Remuneration Committee
Approval date	November 9, 2023
Effective from	FY2023-24

## **I. Background:**

The Company had previously formed below policies:

- a) Policy on appointment and remuneration of Directors, Key Managerial Personnel and Senior Management Employees pursuant to Section 178 of the Companies Act, 2013; and
- b) Remuneration Policy for Non-Executive Directors and Managing Director / Chief Executive Officer / Whole Time Directors pursuant to “IRDAI Guidelines on Remuneration of Non-Executive Directors (NEDs)/ Managing Director (MD)/ Chief Executive Officer (CEO)/ Whole Time Directors (WDTs) of Insurers” dated August 5, 2016.

Insurance Regulatory & Development Authority of India (“IRDAI”) has issued the revised guidelines on “Remuneration of Directors and Key Managerial Persons of Insurers” on June 30, 2023 (“Remuneration Guidelines”). This Guidelines shall replace and supersede the guidelines issued on August 5, 2016 and shall come into effect from FY2023-24.

In view of the above, the Company is required to frame/ review the Remuneration Policy as per new Remuneration Guidelines. Accordingly, a new Policy is framed to provide a framework to govern remuneration of Non-Executive Directors, MD/ CEO / WTDs, KMPs and other employees pursuant to the IRDAI Guidelines on Remuneration of Directors and Key Managerial Persons of Insurers, 2023 and Section 178 of the Companies Act, 2013.

This Policy is applicable from the date of adoption for FY2023-24 onwards and for such period(s) as specified in the Policy from time to time.

## **II. Objective:**

- a. To maintain fair, consistent and equitable compensation practices in alignment with the Company’s core values and strategic business goals.
- b. To ensure that the compensation practices are within the regulatory framework stipulated from time to time by IRDAI or any other relevant regulatory body.
- c. To ensure effective governance of compensation and alignment of compensation practices with prudent risk taking.
- d. To lay down the remuneration policy for Non-Executive Directors (including Independent Directors) and Non-Executive Chairman.

### III. Coverage:

This Policy is applicable to:

- a. **Category I: Non-Executive Directors (NEDs):** To include NEDs including, Independent Directors (IDs) and Non-Executive Chairman
- b. **Category II: Executive Director & Chief Executive Officer (ED & CEO)**
- c. **Category III: Key Managerial Persons (KMPs):** To include Key Managerial Persons as defined in the IRDAI (Registration of Indian Insurance Companies) Regulations, 2022 and Key Managerial Personnel as defined in the Companies Act, 2013
- d. **Category IV: Other Categories of Staff:** To include all other employees not explicitly covered in the first three categories

### IV. Remuneration Policy for Non-Executive Directors including Independent Directors (other than Non-Executive Chairman)

- a. The remuneration payable to NEDs would be governed by the provisions of Insurance Act, 1938 and the IRDAI regulations/ guidelines/ circulars issued from time to time and the provisions of Companies Act, 2013 & related rules to the extent it is not inconsistent with the provisions of the Insurance Act, 1938 and/or IRDAI regulations/guidelines/circulars.
- b. Considering the above, and subject to applicable approvals, the remuneration for the NEDs would be as follows:
  - i. Sitting fee for attending each meeting of the committees and the Board as approved by the Board from time to time within the limits as provided under Companies Act, 2013 and related rules.
  - ii. Remuneration not exceeding Rs. 20 lakh per annum as may be approved by the Board and Shareholders from time to time and in compliance with applicable statutes/ regulations basis the recommendation of the NRC post completion of the annual Board evaluation process. In case IRDAI notifies any future changes to this limit, such limit would apply on and from such notified date.
- c. In addition to the sitting fees and commission, the Company may pay to any director such fair and reasonable expenditure, as may have been incurred by the director while performing his/ her role as a director of the Company and this may include reasonable expenditure incurred by the director for attending Board/ Committee meetings, general

meetings, court convened meetings, meetings with shareholders/ creditors/ management, site visits, induction and training (organized by the Company for its directors) and in obtaining professional advice from Independent advisors in furtherance of his/her duties as a director.

- d. The remuneration payable to NEDs shall be inclusive of any remuneration payable for services rendered by such director in any other capacity unless:
  - i. The services rendered are of a professional nature, and
  - ii. The NRC is of the opinion that the director possesses requisite qualification for the practice of the profession.
- e. Remuneration to NEDs who are also on the Board(s) of an insurance agent or intermediary or insurance intermediary appointed in terms of section 48A of the Insurance Act, shall be paid subject to fulfilment of the requirements set out in the applicable circulars, guidelines or regulations prescribed by IRDAI from time to time. However, Company is permitted to pay sitting fees as per applicable norms under the Companies Act, 2013.
- f. The NEDs shall not be entitled to ESOPs of the Company.

## **V. Remuneration Policy for the Non-Executive Chairman**

- a. The remuneration payable to the Non-Executive Chairman would be governed by the provisions of Insurance Act, 1938 and IRDAI regulations/ guidelines/ circulars issued from time to time and the provisions of Companies Act, 2013 & related rules to the extent it is not inconsistent with the provisions of the Insurance Act, 1938 and/or IRDAI regulations/guidelines/circulars.
- b. Considering the above, the permitted modes of remuneration for the Non-Executive Chairman may include:
  - i. Such fixed payments at such periodicity as may be recommended by the Board, approved by the shareholders from time to time.
  - ii. Maintaining a chairman's office at the Company's expense, bearing expenses for travel on official visits and participation in various forums (both in India and abroad) as chairman of the Company and bearing travel/ halting/ other expenses and allowances for attending to his duties as chairman of the Company and any other modes of remuneration as may be permitted by IRDAI through any circulars/ guidelines as may be issued in the future.
  - iii. Sitting fee for attending each meeting of the Board/ Committees as approved by the Board from time to time within the limits as provided under Companies Act, 2013

and related rules.

- c. The Non-Executive Chairman would be entitled to reimbursement of expenses for attending each meeting of the Board/Committees, official visits and participation in various forums on behalf of the Company.

## **VI. Remuneration Policy for KMPs including ED & CEO and Other Categories of Staff**

### **1. Principles for Determination of Compensation for KMPs:**

Compensation to KMPs shall be determined based on the following principles:

- a. The level and composition of compensation is reasonable and sufficient to attract, retain and motivate the Key Managerial Personnel of the quality required to run the Company successfully, which means compensation should be:
  - i. market competitive ('market' for every role is defined as companies from which the Company attracts talent or companies to which the Company loses talent).
  - ii. driven by the role played by the individual.
  - iii. reflective of the size of the Company, complexity of the sector / industry / Company's operations and the Company's capacity to pay.
- b. Linkage of compensation to appropriate performance benchmarks.
- c. Compensation outcomes are symmetric with risk outcomes and pay-outs thereof are sensitive to the time horizon of the risk.
- d. Compensation structure will have a proper balance between Fixed Pay and Variable Pay.
- e. The deterioration in the financial performance of the Company / business segment/ function/ individual can lead to a contraction in the total amount of variable pay, which can even be reduced to zero for a particular year depending on the performance outcome of the year for the individual or the Company or both.

### **2. Governance Framework**

- a. The management will prepare annual financial and strategic plan for the Company that will form the basis for formulating the Company Key Performance Indicators (KPI) which will be presented to NRC and the Board of Directors. The KPI will include financial, compliance and risk parameters.

- b. The NRC will define Key Performance Indicators (KPIs) for the ED & CEO based on the financial and strategic plans approved by the Board, and which shall at least include the following parameters:

Sr. No.	Parameter
1.	Overall financial soundness measures which must include Net Profit with a minimum Solvency ratio > 1.5
2.	Compliance with Expenses of Management Regulations
3.	Claim efficiency in terms of settlement and outstanding
4.	Improvement in grievance redressal status
5.	Reduction in Unclaimed amounts of policyholders
6.	Renewal rate
7.	Overall Compliance status with respect to all applicable laws

The above parameters shall constitute at least 60% of the total weightage of the performance assessment matrix of ED & CEO and at least 30% of the total weightage in the performance assessment matrix of other KMPs individually.

NRC will have the discretion to configure the weightage of each performance parameter suitably for ED & CEO.

For other KMPs, ED & CEO to decide the weightage of each of the parameters based on the roles of each KMP.

The employees engaged in internal audit, compliance and risk control functions are compensated independent of business areas they oversee, and the compensation of such employees is in line with rest of the Company. Compensation will be aligned to both financial and non-financial indicators of performance including controls like risk management, process perspective, customer perspective and others for the Company.

- c. For ED & CEO, the NRC will review and approve the Company KPIs for variable pay and assess the Company achievement against such norms. Based on Company performance assessment and individual performance assessment, for ED & CEO, the NRC will recommend the Fixed and variable pay to the Board for approval. The NRC may also recommend 'nil' variable pay based on its assessment. This will be subject to necessary approvals from the regulators and shareholders, wherever applicable. For other KMPs, ED & CEO will be the approving authority for fixed and variable pay.
- d. The NRC will work closely with the Risk Management Committee of the Board to ensure effective alignment between remuneration and prudent risk taking.

### 3. Remuneration Structure

Annual Remuneration shall be the aggregate of Fixed Pay (including monetary and non-monetary perquisites) and Variable Pay, for a particular financial year.

#### a. Fixed Pay

- i. The Fixed Pay shall include basic salary, allowances, perquisites, benefits and retinals.
- ii. For the Company to attract and retain talent in certain key businesses and roles, it may make changes to the components mentioned above.
- iii. In addition to the various cash components (salary, allowances etc.) the Company may offer certain perquisites to employees depending on the grade of the Individual. The perquisites extended could include Company car and maintenance, Company leased car/ accommodation, club membership and any other form of benefits including reimbursable perquisites with monetary ceilings as may be decided by the Company keeping in view the level of the employee.

#### b. Variable Pay

- i. The variable pay will be in the form of share-linked instruments or cash or a mix of cash and share-linked instruments. The share-linked instruments include 'Employee stock options' governed by Reliance General Insurance Company Limited Employee Stock Option Scheme 2017 and/or any subsequent ESOP Plan approved by the Shareholders and Long-Term Incentive Plan.
- ii. Any variable pay or performance incentive shall be paid/ granted to any KMP only once during a financial year.
- iii. The quantum of variable pay for KMPs will not exceed 300% of the total fixed pay in a year. The proportion of variable pay to total compensation will be higher for senior positions and lower for others. At least 50% of the compensation shall be variable for KMPs. However, they can earn lesser or even zero variable pay based on various performance criteria.
- iv. For KMPs, if the quantum of variable pay is up to 200% of the fixed pay, at least 50% of the variable pay will be via non-cash instruments and if it is above 200% (max up to 300%) of the fixed pay, at least 70% of the variable pay will be via non-cash instruments.

A minimum of 50% of the total variable pay will be under deferral arrangement (deferment). However, for variable pay up to Rs. 25 lacs, no deferment shall be required.

- v. The deferral period would be spread over a minimum period of three (3) years from the effective date of grant (deferment period). The frequency of vesting will be on annual basis and the first vesting shall not be before one year from the effective date of grant. The vesting shall be no faster than a *pro-rata* basis. Additionally, vesting will not be more frequent than on a yearly basis.
- vi. In case of employee's death or permanent disability, whole of the deferred variable pay (Cash and share-linked instruments) shall vest in the employee's successors, or the employee, as the case may be as per conditions defined in the respective variable schemes.
- vii. In case of Retirement/ Resignation/ Completion of Maximum Tenure-As applicable with reference to the IRDAI guidelines dated June 30, 2023 of a KMP(s) prior to the deferral period, the deferred pay may be paid as per the employment contract agreed between the Company and the KMP. In case of reappointment on retirement, the deferred pay due at the time of retirement (i.e., prior to reappointment) shall be paid only for the respective years to which it is originally deferred.
- viii. In case of termination from the services as per the directives of court/ tribunal / other competent Authorities, or termination by the Company in case of fraud/criminal offences etc., the deferred pay shall be forfeited.
- ix. KMPs of the Company will not be granted or issued any sweat equity shares.
- x. **Employee Stock Options:**
  - (a) Employee Stock Options (ESOPs) are and will be a part of the total remuneration for KMPs.
  - (b) ESOPs, currently governed by the Reliance General Insurance Company Limited Employee Stock Option Scheme 2017 (ESOP Plan) as amended from time to time of the Company and other applicable regulations, aim at achieving twin objectives of aligning senior management compensation to long term shareholders' interests and retention of employees identified as high potential. ESOPs aim at aligning senior management behavior to long-term view of the Company's performance. The Company may grant ESOPs from time to time to the KMPs and other employees.



- (c) The ESOPs will be granted in accordance with the ESOP Plan, as amended from time to time, and duly approved by the NRC, Board and Shareholders, and this Remuneration Policy.
- (d) The ESOPs/ any other approved instrument(s) are fair valued using the Black-Scholes model and based on the valuation done by a Category-1 Merchant Banker basis the latest financial results of the Company prior to grant.
- (e) The total number of ESOPs granted in a year shall not exceed 1% or such limit specified by IRDAI from time to time, of the paid-up capital of the Company. The total number of ESOPs issued, granted, vested or outstanding at any point of time shall not exceed 5% or such limit specified by IRDAI from time to time, of the paid-up capital of the Company.

#### **4. Joining / Guaranteed bonus:**

- a. No Guaranteed bonuses will be paid to KMPs.
- b. Joining or sign-on bonus, if any, will occur in the context of hiring a new hiring of a KMP and will be limited to first year. Where the joining bonus is in the form of employee stock options, such grants will not be considered part of fixed or variable pay.
- c. Further, other than accrued retirement benefits (such as provident fund, superannuation, and gratuity payable on retirement) or any benefits arising under the deferred remuneration plan/ESOP plan or any payments or benefits mandated by applicable law, no severance pay will be paid to KMPs.
- d. No sitting fees will be paid to ED & CEO of the Company for attending the meetings of the Board or Board Committees of the Company.

#### **5. Exceptions:**

- a. Any incentives/benefits conferred contingent upon prospective corporate action events such as Merger & Acquisition, Restructuring, etc. at the entity / parent level, shall be outside the purview of this Policy.

## 6. Other Categories of Staff:

- a. ED & CEO and Chief Human Resources Officer (CHRO) shall be responsible for execution of the compensation strategy and plan (including fixed pay and performance-linked variable pay) for the Company.
- b. Any special compensation not mentioned above that may be taken up at a Company, function or individual level is subject to the approval of the ED & CEO and CHRO.
- c. The remuneration of other employees shall comprise Fixed Pay, Variable pay and retirals.
- d. The variable pay of other employees may consist of performance incentive, sales incentives (for sales staff), LTIP or ESOPs as may be determined from time to time by the Company.
- e. In addition to the various cash components (salary, allowances etc.) the Company may offer certain perquisites to employees depending on the grade of the Individual. The perquisites extended could include Company car, Company leased accommodation, club membership and any other form of benefits including reimbursable perquisites with monetary ceilings as may be decided by the Company keeping in view the grade of the employee.

## 7. Malus and Claw-back:

- a. Variable pay shall be subject to malus and claw-back.
- b. For the purpose of this Policy:
  - i. “Malus” shall mean forfeiture of the unvested deferred variable Pay
  - ii. “Claw-back” shall mean a contractual arrangement whereby the KMP agrees to return previously paid or vested remuneration (cash/equity linked instruments), as given under
- c. Deterioration in financial performance in the form of drop in the Profit After Tax (PAT) from one financial year to the next by 50% or more, provided that such deterioration as evaluated by the NRC, is not on account of changes in regulations, force majeure, market conditions, industry performance, economic, social or other conditions outside the control of the Company or any person. Any material gains/losses from one-time transactions that are not in ordinary course of business would not be included while computing movement in PAT for this purpose. In deciding to apply or not apply malus / claw-back on none, part or all of the variable compensation of the previous year, the NRC and Board shall, in its evaluation, have due regard to principles of proportionality and of reasonable nexus between matters of

ability, capability and expertise of the individual(s) versus matters or events outside the control or even nexus of the individual(s) to the events or situations.

- d. Further, in the event of any Gross negligence, integrity, breach, materially inaccurate financial statements due to the result of misconduct including fraud, poor compliance in respect of corporate governance and regulatory matters, the NRC may decide to apply Malus and/or Claw-back on part or all of the variable pay of ED & CEO and KMPs. Due process including inquiries or investigations as required and/or adherence to principles of natural justice are ensured prior to conclusion on the above events of breaches and which would form the basis of decisions. Error of judgment shall not be construed to be a breach under this Policy.
- e. The organization shall indemnify and hold harmless the KMPs from any claims, liabilities, costs, or expenses, including legal fees, arising from business related decisions made in good faith based on expert opinions. This indemnification shall be subject to the KMP acting within the scope of their duties and in accordance with applicable laws and regulations.
- f. Malus and claw-back in relation to variable pay will apply on fresh grants made with effect from or after the date of adoption of this Policy for a period of 3 years from the effective date of such grant and shall be applicable in event of the resignation, retirement, early retirement or termination of the concerned person. The same shall be done based on the given facts and circumstances, and through due legal process for recovery of amounts adjudged for claw-back. This is in addition to, and without prejudice to the existing clause in the Employee Stock Option Scheme / Employees' Stock Unit Scheme that specifies lapsing of grants including vested stock options / units for terminated (including terminated for cause) or exiting employees applicable for grants made in terms of the aforementioned Schemes from time to time.

## **8. Post-retirement benefits**

The ED & CEO and KMPs retiring or on completion of maximum tenure-as applicable with reference to the IRDAI guidelines dated June 30, 2023 from the services of the Company shall be eligible for post-retirement benefits as outlined in the Company's policy as approved by the CHRO.

## **VII. Policy Review, Implementation & Disclosures**

- a. The Company shall conduct an annual evaluation of the members of the Board, Chairman, ED & CEO to assess the effectiveness of the Board as per the requirements set out in the Companies Act, 2013 as amended from time to time. The annual Independent Directors

meeting shall inter alia review the performance of the Board (as a whole), the Chairman and non-independent directors. The NRC shall thereafter review the performance of all directors as part of the annual evaluation exercise.

- b. This Policy may be amended, modified, or supplemented from time to time to ensure compliance with any modification, amendment, or supplementation to the Companies Act, 2013 and rules made there under and the IRDAI Remuneration Guidelines, as amended from time to time, or as may be otherwise prescribed by the Board from time to time.
- c. This Policy shall be reviewed annually by the NRC and Board.
- d. The particulars of remuneration of Directors, KMPs and other employees, if applicable, will be disclosed in the Board's Report as required under the relevant provisions of the Companies Act, 2013 and the rules made there under and the Remuneration Guidelines, as amended from time to time.