

Ref: IRDAI/F&A/GDL/MISC/141/6/2023

Date: 30th June, 2023

All Private Sector Insurers,
(other than FRBs)

Guidelines on Remuneration of Directors and Key Managerial Persons of Insurers

A. Background:

- i. The Authority issued the following guidelines on Remuneration of Non-Executive Directors and Managing Director / Chief Executive Officer / Whole-time Directors of Insurers vide Circular Ref: IRDA/F&A/GDL/LSTD/155/08/2016 on 5th August, 2016:
 - a. Insurance Regulatory and Development Authority of India (Remuneration of Non-Executive Directors of Private Sector Insurers) Guidelines, 2016
 - b. Insurance Regulatory and Development Authority of India (Remuneration of Chief Executive Officer / Whole-time Director / Managing Director of Insurers) Guidelines, 2016
- ii. The guidelines which came into effect from 1st October, 2016 provide the framework for remuneration of Non-Executive Directors and CEO/WTD/MD of private sector insurers and were issued on the set of principles brought out by the Financial Stability Board (FSB), recommendations of International Association of Insurance Supervisors (IAIS), G-20 Nations Forum and Basel Committee on Banking Supervision (BCBS).
- iii. The guidelines have been in force for over 6 years and based on the experience of implementation and compliance of guidelines by the insurers, it has been decided to:
 - a. bring remuneration of Key Managerial Persons (KMPs) other than the CEO also within the ambit of the guidelines,
 - b. give more clarity to the extent of variable pay with respect to the total remuneration of Directors and KMPs, Variable Pay Deferral, Malus and Clawback provisions, Accounting, Disclosures, etc., and

- c. issue revised guidelines on remuneration of directors and key managerial persons of insurers.

B. General:

- i. Sound remuneration policy and practices are part of the corporate governance framework of an insurer. These guidelines are neither intended to unduly restrict nor reduce an insurer's ability to attract and retain skilled talent by prescribing any particular form or level of individual remuneration. Rather, they aim to promote the alignment of remuneration policies with the long term interests of insurers to avoid excessive risk taking, thereby promoting sound overall governance of insurers and fair treatment of customers.
- ii. The Insurer's Board should adopt and oversee the effective implementation of written remuneration policy which does not induce excessive or inappropriate risk taking, is in line with the corporate culture, objectives, strategies, identified risk appetite and long term interests of the insurer and has proper regard to the interests of its policyholders and other stakeholders. The Insurer's Board should ensure that such a remuneration policy, at least, covers those individuals who are members of the Board, Senior Management, Key Persons in Control Functions and other employees whose actions may have a material impact on the risk exposure of the insurer and should not encourage such individuals, to take inappropriate or excessive risks, especially where performance-based variable remuneration is used.
- iii. Further, the potential for conflicts of interests that may compromise the integrity and objectivity of the staff involved in control functions should also be managed. This can be achieved by making their remuneration predominantly based on the effective achievement of the objectives appropriate to such control functions, and not linked to the performance of any business units which are subject to their control or oversight, etc.

C. Objectives

The primary objective of issuing these guidelines are as under-

- i. To ensure effective governance of compensation
- ii. To ensure alignment of compensation with prudent risk taking
- iii. To ensure effective supervisory oversight and stakeholder engagement
- iv. To ensure safety of interest of policyholders and other stakeholders

In this background, the Authority, in exercise of its powers under section 14 of the IRDA Act, 1999 issues the following guidelines:

- i. Insurance Regulatory and Development Authority of India (Remuneration of Non-Executive Directors of Insurers) Guidelines, 2023 (Annexure-A)
- ii. Insurance Regulatory and Development Authority of India (Remuneration of Key Managerial Persons of Insurers) Guidelines, 2023 (Annexure-B)

D. Further powers of the Authority

- i. Power of the Chairperson to issue clarifications: In order to remove any difficulties in respect of the application or interpretation of any of the provisions of these Guidelines, the Chairperson of the Authority may issue appropriate clarifications from time to time.

These guidelines are not applicable to Foreign Reinsurance Branches (FRBs) operating in India. These Guidelines shall replace and supersede the guidelines issued vide Ref: IRDA/F&A/GDL/LSTD/155/08/2016 on 5th August, 2016 and shall come into effect from FY 2023-24.


Member (F&I)