

## **ICICI LOMBARD GENERAL INSURANCE COMPANY LIMITED**

### **Policy on Related Party Transactions**

ICICI Lombard (the Company) has been maintaining arms' length relationship with its parent company, ICICI Bank and other group companies. Accordingly, the Policy on Arms' length was adopted by the Company which was approved by the Board of Directors of the Company at its 26<sup>th</sup> Meeting held on April 24, 2006.

The Ministry of Corporate Affairs (MCA) has notified the sections of the Companies Act, 2013 (the Act) and Rules thereunder effective from April 1, 2014. In accordance with section 188(1) of the Companies Act, 2013 which is effective from April 1, 2014, the company shall not enter into a transaction with a related party (as defined vide clause 76 of section 2 of the Act), except with the consent of the Board of Directors of the Company with respect to the following:

- (a) sale, purchase or supply of any goods or materials;
- (b) selling or otherwise disposing of, or buying, property of any kind;
- (c) leasing of property of any kind;
- (d) availing or rendering of any services;
- (e) appointment of any agent for purchase or sale of goods, materials, services or property;
- (f) such related party's appointment to any office or place of profit in the company, its subsidiary company or associate company; and
- (g) underwriting the subscription of any securities or derivatives thereof of the Company.

Provided that the above shall not apply to any transactions entered into by the company in its ordinary course of business other than transactions which are not on an arm's length basis.

Under section 188 of the Companies Act and the Rules framed thereunder, the prior approval of the Company, through a resolution, is required for related party transactions which are not in the ordinary course of business or not on an arm's length basis, if the contract or arrangement with related party exceeds certain threshold limits, as given below.

- i. sale, purchase or supply of any goods or materials, directly or through appointment of agent, amounting to 10% or more of the turnover of the company.
- ii. selling or otherwise disposing of or buying property of any kind, directly or through appointment of agent, amounting to 10% or more of net worth of the company.
- iii. leasing of property of any kind amounting to or 10% or more of the turnover of the company.

- iv. availing or rendering of any services directly or through appointment of agent, amounting to 10% or more of the turnover of the company.

Explanation: The limits specified in sub-clauses (i) to (iv) above shall apply for transaction or transactions to be entered into either individually or taken together with the previous transactions during a financial year.

- v. appointment to any office or place of profit in the company, its subsidiary company or associate company at a monthly remuneration exceeding ₹ 0.25 million.
- vi. remuneration for underwriting the subscription of any securities or derivatives thereof, of the company exceeding 1% of the net worth.

“Turnover” has been defined under section 2(91) of the Companies Act as “the aggregate value of the realisation of amount made from the sale, supply or distribution of goods or on account of services rendered, or both, by the company during a financial year”.

The Companies Act, 2013 also prescribes disclosure of related party transactions in the Board of Directors Report which are entered into on arms’ length basis. Further the related party transactions which are not entered into at arms’ length basis are required to be approved by the Board of Directors of the Company. For this purpose “Arm’s length transaction” means a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.

Further, Regulation 23 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations 2015 as amended by the LODR Amendment Regulation, 2018 have prescribed certain approval requirements regarding material related party transactions and have covered the threshold limits of a material related party transaction, including therein the requirement of having clear threshold limits, duly approved by the board of directors.

### **Approach for the Policy on Related Party Transactions**

The Policy has been designed after considering the following aspects:

#### **1. Policy framework**

The Policy covers, inter alia, the nature of the transactions between ICICI Lombard and its related parties as defined in the framework, the manner of establishing the arms’ length principle in a particular transaction, method used for establishing arms’ length for various transactions under other acts/statutes and the internal authority to whom such transactions need to be reported etc.

## 2. Definition of Related Party, Material Related Party Transactions, Turnover & Ordinary Course of Business

“**related party**”, with reference to a company, means—

- (i) a director or his relative;
- (ii) a key managerial personnel or his relative;
- (iii) a firm, in which a director, manager or his relative is a partner;
- (iv) a private company in which a director or manager is a member or director;
- (v) a public company in which a director or manager is a director or holds along with his relatives, more than two per cent. of its paid-up share capital;
- (vi) any body corporate whose Board of Directors, managing director or manager is accustomed to act in accordance with the advice, directions or instructions of a director or manager;
- (vii) any person on whose advice, directions or instructions a director or manager is accustomed to act:  
Provided that nothing in sub-clauses (vi) and (vii) shall apply to the advice, directions or instructions given in a professional capacity;
- (viii) any company which is—
  - a holding, subsidiary or an associate company of such company;
  - a subsidiary of a holding company to which it is also a subsidiary;
- (ix) a director, other than an independent director or key managerial personnel of the holding company or his relative with reference to a company.

“Provided that any person or entity belonging to the promoter or promoter group of the Company and holding 20% or more of shareholding in the Company shall be deemed to be a related party.”

### Material Related Party Transactions

Material Related Party Transactions as per Regulation 23 means a transaction with a related party if a transaction/transactions to be entered into individually or taken together with previous transactions during a financial year, exceed ten percent of the turnover of the Company as per the last audited financial statements of the Company.

Notwithstanding the above, a transaction involving payments made to a related party with respect to brand usage or royalty shall be considered material if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceed five percent of the annual turnover of the Company as per the last audited financial statements of the Company.

## Turnover

Turnover has been defined as the aggregate value of the realization of amount made from sale, supply or distribution of goods or on account of services rendered, or both, by the company during a financial year. Accordingly, for the Company, the 'turnover' is considered as the Total Income i.e. the total of Gross Written Premium income and other income.

## Ordinary Course of Business

**"Ordinary course of business"** includes but not limited to a term for activities that are necessary, normal, and incidental to the business. These are common practices and customs of commercial transactions. The ordinary course of business covers the usual transactions, customs and practices related to the business.

The following factors are indicative of a transaction being in the ordinary course of business:

- i. The transaction is normal or otherwise unremarkable for the business.
- ii. The transaction is frequent/regular
- iii. The transaction is a source of income for the business
- iv. Transactions that are part of the standard industry practice, even though the Bank may not have done it in the past.

These are not exhaustive criteria and the Company will have to assess each transaction considering its specific nature and circumstances.

## 3. Arms' length principles

In terms of the Companies Act, the expression 'arm's length transaction' means a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.

For the purpose of compliance with arm's length principle, an effective approach is a comparison with pricing of transactions with independent parties, which may involve comparison of the terms (a) with those of an identical or similar transaction with one or more unrelated parties; or (b) with known market terms for identical or similar transactions. However, different types of transactions may require other methods for assessing arm's length pricing.

#### 4. Nature of transactions

The transactions/relationships, inter se, between the ICICI Lombard and its related parties as defined in the framework could be of diverse nature. The nature of transactions, basis of arms' length and method of determining arms' length for FY 2020 are mentioned in Annexure A.

#### 5. Review and Approval of Related Party Transactions

All related party transactions shall require the approval of the Audit Committee and the Audit Committee may make omnibus approval for related party transactions proposed to be entered into by the Company.

- The Board may authorise the Audit Committee to grant omnibus approval for related party transactions.
- The Audit Committee shall satisfy itself on the need for omnibus approval for transactions of repetitive nature and that such approval is in the interest of the Company.
- Omnibus approval may be granted by the Audit Committee for related party transactions as per the details in Annexure A.
- In respect of investment transactions pertaining to dealings in investment securities, including purchase/sale of securities and brokerage the maximum value per transaction with a single related party would not exceed 2.5% of the investment assets at the end of the preceding financial year. However, for other than investment transactions (which would include short term fixed deposits) and transaction/s involving payments made to a related party with respect to brand usage or royalty, the maximum value of a transaction to be entered into with a related party, taken individually or taken together with previous transactions during a financial year, under the omnibus approval route, would not exceed 10% of the total Turnover of the Company at the end of the preceding financial year.
- For transaction/s involving payments made to a related party with respect to brand usage or royalty, the maximum value of a transaction to be entered into with a related party, taken individually or taken together with previous transactions during a financial year, under the omnibus approval route, would not exceed five percent of the annual turnover of the Company as per the last audited financial statements of the Company.
- In respect of investment transactions pertaining to dealings in investment securities, including purchase/sale of securities and brokerage the maximum value of transactions, in aggregate with a single related party, in a financial year would not exceed 10% of the investment assets at the end of preceding financial year. However, for other than investment transactions which would include short

term fixed deposits, the maximum value of transactions, in aggregate with a single related party, in a financial year, under the omnibus approval route would not exceed 30% of the total assets at the end of the preceding financial year.

- Omnibus approval should include the nature of transactions, name of related party, indicative base price/current contracted price and the formula for variation in the price and arm's length basis.
- Where the need for related party transactions cannot be foreseen and the aforesaid details are not available, Audit Committee may grant omnibus approval for such transactions subject to their value not exceeding ₹ 1 crore per transaction.
- Such omnibus approval shall be valid for a period not exceeding financial one year and shall require fresh approval after the expiry of such financial year.
- If a related party transaction is a material related party transactions as per Regulation 23, it shall require shareholder's approval through resolution and no related parties shall vote to approve such resolutions whether the entity is a related party to the particular transaction or not.
- If a related party transaction is not in the ordinary course of business, or not at arm's length price and exceeds certain thresholds prescribed under Companies Act, 2013, it shall require a shareholders' approval by resolution. In such a case, any member who is a related party, shall not vote on such resolution passed for approving the relevant transaction, irrespective of whether the entity is a party to the particular transaction or not.

Under the Companies Act, 2013 the consent of the board of directors is required, by a resolution at a meeting of the Board, for entering into related party transactions within the thresholds specified in section 188 of the Act and which are (i) not in the ordinary course of business, or (ii) not at an arm's length price.

In case any related party transactions are referred by the Company to the Board for its approval where the transactions are not in the ordinary course of business or not at an arm's length price, the Board will consider factors such as, nature of the transaction, the manner of determining the pricing and the business rationale for entering into such transaction. On such consideration, the Board may approve the transaction or may require such modifications as it deems appropriate under the circumstances. Any member of the Board who has any interest in any related party transaction will rescue himself and abstain from discussion and voting on the approval of the related party transaction.

A note on transactions with related parties to be placed at the Audit Committee every quarter for review.

- A note on transactions with related parties to be placed at the Audit Committee every quarter for review.
- Any member of the Committee who has a potential interest in any related party transaction will recuse himself/herself and abstain from discussion and voting on the approval of the related party transaction.
- Every contract or arrangement, which is required to be approved by the Board/Shareholders under this Policy, shall be referred to in the Boards' report to the shareholders along with the justification for entering into such contract or arrangement.
- The details of material transactions with related parties will be included in the corporate governance reports which are required to be submitted to the stock exchanges on a quarterly basis.

### Omnibus approval of the Audit Committee

The following table lists various types of transactions undertaken by the Company with related parties, along with the basis of pricing and the arm's length criteria, for omnibus approval of the Committee. The duration of the transaction may vary depending upon the nature of the transaction.

<b>Sr. No.</b>	<b>Nature of transactions</b>	<b>Name of related party</b>	<b>Indicative base price/current contracted price and the formula for variation in the price</b>	<b>Arm's length basis</b>
1	Insurance Services : Insurance Premium	All entities, directors, KMP's and their relatives of the Company/Holding Company	As per underwriting policy of the Company	As per underwriting policy of the Company
2	Insurance Services : Claims paid	All entities, directors, KMP's and their relatives of the Company/Holding Company	Claims are settled on the basis of independent survey report	Claims are settled on the basis of independent survey report
3	Income from Investment	All entities, directors, KMP's and their relatives of the Company/Holding Company	As per rates prevailing	As per rates prevailing
4	Commission/ Brokerage	All entities, directors, KMP's and their relatives of the Company/Holding Company	As per IRDAI prescribed rates	As per IRDAI prescribed rates
5	Dealings in investment securities, including purchase/sale of securities and brokerage	All entities, directors, KMP's and their relatives of the Company/Holding Company	As per investment policy of the Company	As per investment policy of the Company

Sr. No.	Nature of transactions	Name of related party	Indicative base price/current contracted price and the formula for variation in the price	Arm's length basis
	relating to investment transactions.			
6	Premium paid	All entities, directors, KMP's and their relatives of the Company/Holding Company	As per group transfer pricing policy of the Company	As per group transfer pricing policy of the Company
7	Establishment and other expenditure	All entities, directors, KMP's and their relatives of the Company/Holding Company	As per group transfer pricing policy	As per group transfer pricing policy
8	Issue of share capital	All entities, directors, KMP's and their relatives of the Company/Holding Company	Options granted under ESOS Scheme-2005 prior to listing will be as per the valuation report by Independent valuer as applicable.  Options granted ESOS Scheme-2005 post-listing as per the applicable SEBI Regulations.	Options granted under ESOS Scheme-2005 prior to listing will be as per the valuation report by Independent valuer as applicable.  Options granted ESOS Scheme-2005 post-listing as per the applicable SEBI Regulations.
9	Share premium on shares issued	All entities, directors, KMP's and their relatives of the	Options granted under ESOS Scheme-2005 prior	Options granted under ESOS Scheme-2005 prior

Sr. No.	Nature of transactions	Name of related party	Indicative base price/current contracted price and the formula for variation in the price	Arm's length basis
		Company/Holding Company	to listing will be as per the valuation report by Independent valuer as applicable.  Options granted ESOS Scheme-2005 post-listing as per the applicable SEBI Regulations.	to listing will be as per the valuation report by Independent valuer as applicable.  Options granted ESOS Scheme-2005 post-listing as per the applicable SEBI Regulations.
10	Share Application Money received	All entities, directors, KMP's and their relatives of the Company/Holding Company	Options granted under ESOS Scheme-2005 prior to listing will be as per the valuation report by Independent valuer as applicable.  Options granted ESOS Scheme-2005 post-listing as per the applicable SEBI Regulations.	Options granted under ESOS Scheme-2005 prior to listing will be as per the valuation report by Independent valuer as applicable.  Options granted ESOS Scheme-2005 post-listing as per the applicable SEBI Regulations.
11	Rent/Other income	All entities, directors, KMP's and their relatives of the Company/Holding Company	As per group transfer pricing policy	As per group transfer pricing policy
12	Dividend payment	All entities, directors, KMP's and their relatives of the Company/Holding Company	Amounts vary across different years	Dividend is declared in compliance with extant laws and regulations and the rate is applicable to all share holders

Sr. No.	Nature of transactions	Name of related party	Indicative base price/current contracted price and the formula for variation in the price	Arm's length basis
13	Short term fixed deposits	All entities, directors, KMP's and their relatives of the Company/Holding Company	Market rates prevailing at the time of deals	These transactions are done at prevailing market rates
14	Debentures issuance A) Interest Rate  B) Arranger Fees	All entities, directors, KMP's and their relatives of the Company/Holding Company	Market rates	These transactions are done at market rates
15	Royalty payments	ICICI Bank	As per agreement	As per agreement
16	Purchase/Sale of Fixed Asset	All entities, directors, KMP's and their relatives of the Company/Holding Company	Market rates prevailing at the time of deals	These transactions are done at prevailing market rates
17	Insurance Services:- Claims Received	All entities, directors, KMP's and their relatives of the Company/Holding Company	As per prevailing insurance policy terms and conditions	As per prevailing insurance policy terms and conditions