

## ICICI LOMBARD GENERAL INSURANCE COMPANY LIMITED

### Policy on Appointment and Compensation of Employees and framework for remuneration to Non-executive Directors

#### 1. Policy on Appointment

##### Objective

The objective of the Policy is to lay down Guidelines on Appointment of employees including Key Managerial Personnels (KMPs) of ICICI Lombard General Insurance Company Limited.

For the purpose of this Policy and operation thereof the term KMP shall be ascribed with the definition as prescribed under the Guidelines on Corporate Governance, issued by the Insurance Regulatory and Development Authority of India (IRDAI), vide notification bearing no IRDA/F&A/GDL/CG/100/05/2015, dated, May 18, 2016, reproduced herein below for the sake of convenience:

*“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.*

##### Appointment Guidelines

- **Philosophy:** ICICI Lombard is committed for adoption of fair employment practices. It ensures diversity of workplace through efforts to recruit, develop and retain the most talented people from a diverse candidate pool. It upholds the principle that advancement is based on talent and performance and there is a commitment to equal opportunity.
- **Process:** Appointment of employees is based on the educational qualification, experience, skills and competencies as required for performance on the job or as prescribed by relevant Statute(s)/Regulation(s)/Rule(s)/Authorities or as prescribed in the recruitment manual of the Company. Further, the appointment or termination of KMPs shall be made with the approval of Board of Directors of the Company on the recommendation of the Board Nomination and Remuneration Committee.
- **Requirements:** All employees should submit requisite documents or sign any/all declarations showing proof of, or declaring compliance to, any/all rule(s), code(s) and statutory or regulatory prescriptions as applicable to the employees, Whole Time Directors and KMPs of the Company.
- **Adherence:** Appointment of employees is made relying upon the information furnished and representation(s) made by the employee from time to time. If any

information or representation(s) is found to be incorrect or if any material information is detected by the Company to have been suppressed by the employee or any action on the employee's part is found to be in contravention of the terms and conditions of employment or the Code of Conduct of the Company will have the right to take appropriate actions including termination of services of the employee at any time without any notice.

- **Grooming insurance professionals:** Given the nascent nature of the industry and shortage of trained manpower, the Company will actively work with academic institutions to develop skilled talent pool. Robust induction and training will be deployed to groom skilled professionals, especially those who are from outside the industry. In line with this mandate, the Company shall always endeavor to nurture attitude and train the employees for development of skills. Internal movements across functions shall be encouraged to develop well rounded insurance professionals.

## **2. Policy on Compensation**

### **Objective**

The Objective of the policy is to lay down Guidelines on fixing Compensation of employees including KMPs, Whole-Time Directors (WTD)/MD/CEO and Non-Executive Directors (NED's) of the Company. The Policy is divided into three parts. Part A of the Policy deals with compensation of employees including KMPs. Part B and Part C lays down the guidelines relating to remuneration of Whole Time Directors/MD/CEO and Non-Executive Directors respectively.

### **Part A: Compensation policy for Employees including KMPs**

#### **Philosophy on compensation and benefits**

The philosophy of the Company on compensation and benefits is based on the ethos of meritocracy and fairness. The twin pillars of performance management and talent management system are closely intertwined with the compensation, benefits and reward mechanism of the Company. While the Company will strive to ensure internal and external equity that are consistent with emerging market trends, its business model and affordability based on business performance sets the overarching boundary conditions.

#### **Compensation Structure**

The Compensation structure is delivered through *inter-alia* the following composition of elements that meet the objective of attracting, rewarding and retaining talent:

- Annual Guaranteed Pay
- Variable Pay
- Long-Term Pay
- Non-cash Benefits
- Post Retiral Benefits

The Compensation structure of KMPs will be reviewed by the Board Nomination & Remuneration Committee based on market trends and strategy of the Company from time to time.

- **Annual Guaranteed Pay (AGP):** AGP consists of various salary components including base pay and allowances as applicable to eligible employees. Allowances include a basket of components like House Rent Allowances (HRA), Medical Allowance, Conveyance Allowance, Leave Travel Allowance (LTA), Supplementary Allowance and any other allowance(s) introduced from time to time. The Company has the flexibility to design the allowance(s) basket subject to the maximum limit to be prescribed for each level. AGP also includes statutory contributions such as Employer's contribution to Provident Fund and Gratuity. The basic salary and allowances are fixed as a percentage of AGP, which ensures prudent management of AGP.
- **Variable Pay:** Variable pay is given in the form of a performance bonus. The payout is a function of overall performance of the Company and performance of an individual as determined by the Company subject to a payout capped at a maximum of 100% of basic salary for the individual with highest rating. Since capacity to pay is also a key determinant in structuring pay, variable pay is an instrument to manage wage cost effectively in the events of downturn in the economy, industry or the company.

Ensuring balance in setting performance objectives, capping the maximum payout of performance bonus and following an annual payout cycle encourages and rewards prudent behavior.

The Company follows the philosophy of meritocracy, which is the relative differentiation of employees based on performance delivered. The design of the variable pay is linked to the individual employees' performance rating which is arrived on the basis of assessment of performance delivered against a set of pre-defined performance objectives. These objectives are balanced in nature, and comprise a holistic mix of financial, customer, people, process, quality and compliance objectives.

- **Long- term Pay:** Long- term pay (applicable to eligible employees) may be administered either through employee stock options or deferred cash. Typically, this is a critical element in rewarding middle and senior management of the Company. As a philosophy, long term pay is given to:
  - Align senior management behavior to long term view of the Company's performance in the interest of the shareholders
  - Create individual stake in the success of the Company
  - Retain key talent in the Company
  - Reward performance behaviors which are linked to institution building

Specific criteria for employee stock option grant and deferred cash could include organization performance, individual performance, potential assessment, vintage and any other relevant parameters.

- **Non-Cash Benefits:** Non-Cash Benefits are provided to eligible employees to supplement rewards, which *inter-alia* include the following:
  - Group Health insurance for employees and dependants
  - Group term life insurance for employees
  - Personal accident insurance for employees
  - Domiciliary medical expense reimbursement
  - Company Car
  
- **Post retirement Benefits:** Post retirement benefits will be applicable to eligible employees retiring from the services of the Company, which *inter-alia* include the following:
  - Group Health Insurance for employees and dependants
  - Domiciliary medical expenses post retirement
  - Transportation to Home town

### **Review of Compensation**

Compensation decisions are periodically reviewed by the Company in the light of:

- the prevalent and emerging trends in the market with specific reference to compensation and benefits provided.
- compensation policies in line with emerging employee needs and organizational priorities.
- overall annual increments, bonus payout, stock option grants and benefits at various levels.

- **Review of prevalent and emerging market trends**

Emerging market trends constitute an important input variable to compensation decisions. It is therefore of prime importance to capture and develop a thorough understanding of the market dynamics with respect to compensation and rewards trends.

- **Review of organizational priorities and employee sentiments/needs**

The human resources function engages on an ongoing basis in understanding the changing organizational priorities and the interrelations, if any on the compensation decisions of the Company. Through various channels and platforms, the function engages to understand employee needs with reference to employee compensation, benefits and rewards decisions and to assess the efficacy of the current model.

- **Annual processes:** Reviews of key processes such as increments, performance bonus, stock option grants and benefits at various levels are carried out on a periodic basis. Few of these processes are outlined below:

- **Increments:** Compensation and benefits for various levels are reviewed periodically on the basis of market data of the relevant competitor group, internal equity considerations and cost budgets of the Company. Individual level compensation decisions are linked to the balanced performance measures and future leadership potential. The overall budget for the compensation of KMPs are approved by Board Nomination and Remuneration Committee
- **Performance Bonus:** Performance bonus is payable at the end of each financial year, based on the performance of the Company and individual performance. The bonus payout grid is approved by the Board Nomination and Remuneration Committee.
- **Grant of stock option and Deferred cash:** Stock options may be granted based on availability of stock options for grant (only in case of stock options), performance of the Company and performance and talent decisions at the individual level. The eligibility criteria, maximum number of Stock Options and Deferred cash that may be granted at each level and the grant grid are approved by the Board Nomination and Remuneration Committee.

The Managing Director & CEO shall be authorized to review / approve / ratify all matters relating to compensation not specifically governed under the scope of this policy.

## **Part B: Compensation policy for Whole Time Directors (MD/CEO/WTD)**

### **Background**

IRDAI vide reference no. IRDA/F&A/GDL/LSTD/155/08/2016 dated August 5, 2016 notified "Guidelines on Remuneration of Non-executive Directors and Managing Director/Chief Executive Officer/Whole-time Directors of Insurers. The Guidelines requires the Company to formulate and adopt a comprehensive remuneration policy covering the MD/CEO/WTD.

### **Philosophy on compensation and benefits**

Compensation will be aligned to both financial and non-financial indicators of performance including controls like risk management, process perspective, customer perspective and others.

### **Compensation Structure**

The Compensation structure is delivered through *inter-alia* the following composition of elements that meet the objective of attracting, rewarding and retaining talent:

- Annual Guaranteed Pay
- Variable Pay
- Long-Term Pay
- Non-cash Benefits
- Guaranteed Bonus and Severance Package
- Post retiral benefit

- **Annual Guaranteed Pay (AGP):** AGP consists of various salary components including base pay and allowances as applicable. Allowances include a basket of components like House Rent Allowances (HRA), Medical Allowance, Conveyance Allowance, Leave Travel Allowance (LTA), Supplementary Allowance and any other allowance(s) introduced from time to time. The Company has the flexibility to design the allowance(s) basket subject to the maximum limit, if any. AGP also includes statutory contributions such as Employer's contribution to Provident Fund and Gratuity. The basic salary and allowances are fixed as a percentage of AGP, which ensures prudent management of AGP.
- **Variable Pay:** Variable pay is given in the form of a performance bonus. The payout is a function of overall performance of the Company subject to a maximum limit of 70% of AGP excluding the statutory contributions such as Employer's contribution to Provident Fund and Gratuity. The Variable pay may be in the form of cash, stock linked instrument or a mixture of both.

Where the variable pay constitutes a substantial portion of the total pay i.e exceeding 50% of fixed pay, the payout will be 60% of the bonus as upfront and the balance 40% will be equally deferred over the next three years.

- **Long-term Pay:** Long- term pay may be administered either through employee stock options or deferred cash.

Stock options may be granted in accordance with the regulatory prescriptions to that effect including SEBI ESOP Guidelines and subject to availability of stock options for grant in line with the performance of the Company. The eligibility criteria, maximum number of stock options or deferred cash would be in accordance with the approval of the Board Nomination and Remuneration Committee.

- **Non-Cash Benefits:** Non-Cash Benefits are provided to supplement rewards, which *inter-alia* include the following :
  - Group Health insurance
  - Group term life insurance
  - Personal accident insurance
  - Domiciliary medical expense reimbursement
  - Company Car
- **Guaranteed Bonus and Severance Package:** Guaranteed bonus may be paid only to new hires and restricted to first year preferably in the form of ESOPs. However payment of Guaranteed Bonus may be paid beyond the year of joining. Payment of severance pay other than accrued benefits (mandated by statute) shall be made with the prior approval of the Board.

**Clawback:**

In case of deferred remuneration, in the event of any negative trend, in the financial and non-financial indicators of performance as mentioned above in any year during the vesting period, any unvested/unpaid portions would be clawed back. However,

while exercising such provisions due consideration will be given to the actual / realized performance of the Company. The Board Nomination and Remuneration Committee (BNRC) may evaluate the conditions leading to such event including changes in regulations, market conditions, industry performance and others. The Committee may decide to apply clawback on none, part or all of the unvested deferred variable compensation based on the outcome of the evaluation.

Acts of gross negligence and integrity breach shall be covered under the purview of the compensation policy. Errors of judgment shall not be construed to be breaches under this policy.

The deferred part of the variable pay will be subject to clawback, under which, the Company will prevent vesting of all or part of the variable pay in the event of an enquiry determining gross negligence or integrity breach.

- **Post retirement Benefits:** Post retirement benefits will be applicable to WTDs retiring from the services of the Company, which *inter-alia* include the following:
  - Group Health Insurance for employees and dependants
  - Domiciliary medical expenses post retirement
  - Transportation to Home town

### **Review of Compensation**

The decision relating to remuneration of WTD/MD/CEO would be reviewed periodically by the Board Nomination and Remuneration Committee.

### **Disclosure requirements**

The Company will be compliant with the annual disclosure requirement. The key disclosure required to be made is attached in **Annexure I**.

### **Part C. Remuneration policy for Non-executive Directors**

The remuneration payable to Non-executive Directors (NED) would be governed by the provisions of IRDAI (Remuneration of Non-executive Directors of Private Sector Insurers) Guidelines, 2016 issued from time to time and the provisions of Companies Act, 2013 (as amended from time to time) and related rules to the extent it is not inconsistent with the provisions of the Insurance Act, 1938 (as amended from time to time).

Considering the above, the permitted modes of remuneration for the NEDs would be in accordance with the following parameters:

### **Sitting fees and Travel expenses**

Sitting fees and travel expenses payable to the NED's shall be as per the limits specified under the Companies Act, 2013 (as amended from time to time) and as determined by the Company for attending each meeting of the Board or committee thereof.

### **Profit Related Commission**

The NEDs would be entitled for Profit related commission subject to a maximum of ₹ 1,000,000 (Ten Lacs) per annum and in accordance with the approval of the Board of Directors and the Shareholders from time to time, in compliance with the provisions of Companies Act, 2013 (as amended from time to time) and regulatory prescriptions.

### **Disclosure**

The Company would make the requisite disclosure on remuneration paid to NED's in the Annual Financial Statements.

### **3. Review**

The Policy would be reviewed annually by the Board Nomination and Remuneration Committee.



**Disclosure requirements for compensation as per IRDAI guidelines**

**Qualitative Disclosures**

1	Information relating to the design and structure of remuneration processes.
2	Description of the ways in which current and future risks are taken into account in the remuneration processes.
3	Description of the ways in which the the Company seeks to link performance during a performance measurement period with levels of remuneration.

**Quantitative disclosures (WTD, CEO / MD)**

1	<ul style="list-style-type: none"> <li>• Number of MD/CEO/WTDs having received a variable remuneration award during the financial year.</li> <li>• Number and total amount of sign-on awards made during the financial year.</li> <li>• Details of guaranteed bonus, if any, paid as joining / sign on bonus.</li> </ul>
2	Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms.
3	Total amount of deferred remuneration paid out in the financial year
4	Breakdown of amount of remuneration awards for the financial year to show fixed and variable, deferred and non-deferred.