

SOP

STANDARD OPERATING PROCEDURE

**DOCUMENT NAME: NOMINATION,
REMUNERATION AND EVALUATION POLICY**

DOCUMENT TYPE: POLICY

VERSION:

Contents

1.	PREAMBLE	2
2.	OBJECTIVE	2
3.	SCOPE	3
4.	ELIGIBILITY CRITERIA AND QUALIFICATIONS.....	3
5.	REMUNERATION.....	6
6.	CLAWBACK.....	8
7.	ANNUAL PERFORMANCE EVALUATION	8
8.	DISCLOSURES.....	12

1. PREAMBLE

The Remuneration Policy (“Policy”) of Pramerica Life Insurance Limited (“PLIL or the Company”) has been designed in line with the requirements prescribed under Section 178 of the Companies Act 2013 (“Act”) read with Companies (Meetings of Board and its Powers) Rules, 2014 (“Rules”), IRDAI Corporate Governance Guidelines (“CG Guidelines”) as amended from time to time and IRDAI guidelines on Remuneration of Non-executive Directors and Managing Director/Chief Executive Officer/Whole-time Directors of Insurers dated August 05, 2016.

The Act, Rules and Guidelines requires that the Company must have a comprehensive policy that lays down the criteria for determining the qualifications, positive attributes and Independence of a Director and also lay down the criteria for remuneration of the Directors, Key Managerial Personnel and other employees.

Further, CG Guidelines prescribes that the Directors of the insurance companies should meet the ‘fit and proper’ criteria. The criteria would relate to integrity demonstrated in personal behavior and business conduct, soundness of judgment and financial soundness.

The Board of Directors, in their meeting held on July 18, 2014, re-designated the existing Remuneration Committee of the Board as ‘Nomination and Remuneration Committee (“NRC”)’ and amended the charter of NRC in compliance with the requirements of the Act.

The Policy lays down the guiding principles that shall be applicable in determining qualifications, positive attributes, integrity and independence of the Directors.

The NRC has amended this Policy in accordance with the applicable provisions and the same has also been approved by the Board of Directors in their meeting held on 15th October 2016.

2. OBJECTIVE

- a) To lay down criteria for identifying persons who are qualified to become directors and such persons who may be appointed in senior management and to determine their remuneration and other terms and conditions;
- b) To determine the qualifications, positive attributes and independence of the Board;
- c) To determine overall remuneration framework based on the Company’s size and financial position and trends and practices on remuneration prevailing in the Industry;
- d) To ensure that remuneration is structured in a way that the Company can attract, retain and motivate qualified employees to contribute to the success of the Company; and
- e) To carry out the evaluation of the performance of Board of Directors as well as the members of the senior management team.

3. SCOPE

This Policy shall be applicable to:

- a) Board of Directors (Chairman/Executive (including Managing Director & CEO/ Non-Executive / Independent Directors);
- b) Key Managerial Persons (KMP's) as defined in the Companies Act 2013 and CG Guidelines;
- c) Direct Reports of the Managing Director & CEO (MD & CEO); and
- d) Other employees of the company.

4. ELIGIBILITY CRITERIA AND QUALIFICATIONS

(i) Board of Directors

(a) Composition of the Board

Section 149 of the Companies Act, 2013 prescribes that every public limited company shall have minimum 3 directors. Also the Company falls under the prescribed class of Companies which are required to appoint at least one woman director and at least two independent directors. Section 149 (3) provides that there should be at least one Director who should have stayed in India for a period of not less than 182 days during the previous calendar year.

Further, CG Guidelines also prescribe minimum three independent directors for an unlisted insurance company. It further provides that in case Chairman of the Company is non-executive, the Chief Executive Officer shall be the whole time director on the Board.

At present, the Board consists of eleven Members including one non-executive Chairman and one Managing Director and CEO, besides nine non-executive directors of whom three are independent. The Board consists of professional, experienced and knowledgeable Directors who are responsible for the overall directions of the business in the interest of all stakeholders and applicable laws.

(b) Appointment Criteria for Managing Director and CEO/ Whole Time Director / Executive Director.

The appointment of Managing Director / Whole Time Director / Executive Director shall be made in accordance with Insurance Act, 1938, applicable IRDA guidelines, applicable provisions of the Companies Act 2013 and the Articles of Association of the Company.

The candidate for the position will be assessed against a range of criteria which includes but not be limited to qualifications, skills, industry experience, background and other attributes required for the said position.

The Managing Director & CEO / Whole Time Director / Executive Director shall have all the powers and authorities as prescribed by the Board of Directors, Articles of Association and applicable provisions of Companies Act, 2013. The Managing Director & CEO/ Whole Time Director / Executive Director will be in overall charge of the business, administration and other affairs of the Company within the superintendence, control and directions of the Board of Directors. The appointment shall be subject to the prior approval of IRDA.

(c) Appointment Criteria for Non – Executive Directors

The Non - Executive Director is appointed as per the applicable provisions of the Companies Act, 2013 and rules made there under and assessed on various parameters such as qualification, relevant experience and expertise, integrity, skill sets, etc.

(d) Appointment Criteria for Independent Directors

An independent director in relation to a company, means a director other than a managing director or a whole-time director or a nominee director—

- a) who, in the opinion of the Board, is a person of integrity and possesses relevant expertise and experience;
- b) (i) who is or was not a promoter of the company or its holding, subsidiary or associate company;
(ii) who is not related to promoters or directors in the company, its holding, subsidiary or associate company;
- c) who has or had no pecuniary relationship with the company, its holding, subsidiary or associate company, or their promoters, or directors, during the two immediately preceding financial years or during the current financial year;
- d) none of whose relatives has or had pecuniary relationship or transaction with the company, its holding, subsidiary or associate company, or their promoters, or directors, amounting to two per cent or more of its gross turnover or total income or fifty lakh rupees or such higher amount as may be prescribed, whichever is lower, during the two immediately preceding financial years or during the current financial year;
- e) who, neither himself nor any of his relatives:
 - (i) holds or has held the position of a key managerial personnel or is or has been employee of the company or its holding, subsidiary or associate company in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed;
 - (ii) is or has been an employee or proprietor or a partner, in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed, of—
 - (A) a firm of auditors or company secretaries in practice or cost auditors of the company or its holding, subsidiary or associate company; or

- (B) any legal or a consulting firm that has or had any transaction with the company, its holding, subsidiary or associate company amounting to ten per cent or more of the gross turnover of such firm;
- (iii) holds together with his relatives two per cent or more of the total voting power of the company; or
- (iv) is a Chief Executive or director, by whatever name called, of any non-profit organization that receives twenty-five per cent or more of its receipts from the company, any of its promoters, directors or its holding, subsidiary or associate company or that holds two per cent. or more of the total voting power of the company;
- (v) is a material supplier, service provider or customer or a lessor or lessee of the Company.
- f) who is not less than 21 years of age.
- g) who possesses such other qualifications as may be prescribed.

(e) Nomination Process

The NRC will assist the Board in identifying potential qualified individuals for the position of director with a view to ensure that the Board is comprised of individuals who possess the skills, qualities and experience to collectively contribute to corporate governance.

NRC will review and ensure that the identified candidates meet the eligibility norms as set out in the Companies Act 2013, Insurance Act 1938, CG Guidelines and other statutory provisions applicable to Director/Independent Director. NRC shall determine the suitability of a candidate on the basis of below-mentioned parameters:

- a) Adherence to the highest ethical standards, display solid business judgment, and have strong interpersonal skills;
- b) Ability to read and interpret financial statements;
- c) Industry knowledge and experience;
- d) Fit and proper criteria prescribed under CG Guidelines; and
- e) Such other criteria as may be determined by NRC or prescribed by applicable law from time to time.

The profile of the shortlisted candidate will be placed before the Board of Directors for their consideration and approval. The approval of the shareholders is also sought for the appointment in compliance with the provisions of the Companies Act 2013 and Articles of Association of the Company. The Independent Directors will be issued formal letter of confirmation of their appointment.

The Company has Directors' Handbook in place to familiarize new Directors with their rights, duties and responsibilities as Director of the Company. The Handbook contains the summary of various legal compliances applicable to a Director. The Board Members are also updated on the business performance, key risks, changing regulatory environment etc. at each meeting of the Board or its Committees.

- (ii) Key Managerial Personnel (KMPs), Chief Financial Officer, Chief Risk Officer, Chief Compliance Officer, Head of Audit and Senior Management Personnel KMP shall consist of employees as defined in Companies Act, 2013 and CG Guidelines issued by IRDAI from time to time.

The Partnership Consultation Committee (PCC) may assist the NRC in short listing eligible candidates to the Nomination and Remuneration Committee for consideration for appointment as MD & CEO, Chief Financial Officer, the Chief Risk Officer, the Chief Compliance Officer and the Head of Audit (if applicable). The MD & CEO and KMPs shall be appointed, by means of resolution of the NRC/Board as the case may be containing the terms and conditions of such appointment.

The KMPs should comprise of individuals with appropriate mix of skills, experience and personal attributes. Such employees should be adept and understand the business and the environment in which Company operates and deliver on the Company objectives, goals and strategic direction.

The selection of potential candidates as part of KMP, as the case may be shall primarily be based upon the following key factors:

- a) Appropriate level of experience, skills and qualifications;
- b) High level of integrity;
- c) Ability to provide insights and practical wisdom based on their experience and expertise for the success of the Company;
- d) Display of specific competencies as defined; and
- e) Compliance to applicable legal and regulatory requirements.

(iii) General for all employees

The Company shall recruit individuals with high level of integrity and having qualifications, skills and experience relevant to the Company's requirements for the specific position for which such individual is being interviewed.

5. REMUNERATION

(i) Remuneration in General

The remuneration of employees in general is based upon the industry position, business performance, and macro-economic conditions and also benchmarked to companies in the insurance sector. The survey reports generated through internationally recognized compensation/HR service consultancies, internal industry reports etc. form basis for appropriate benchmarking.

The statutory payments such as provident fund, gratuity and superannuation benefits etc. are made in accordance with the applicable law.

(ii) Remuneration for Key Managerial Personnel

The remuneration of the Senior Management (including Chief Financial Officer, Chief Risk Officer, Chief Compliance Officer and Head of Audit) and Key Managerial Personnel is determined and approved by the MD & CEO, considering the following key factors:

- (a) The level and composition of remuneration should be reasonable and sufficient to attract, retain and motivate directors/executives and should be in line with the industry practice aimed at promoting the short term and long term interests and performance of the company.
- (b) Remuneration is regularly benchmarked to ascertain appropriate remuneration positioning.
- (c) Relationship of remuneration to performance is clear and meets appropriate performance benchmarks and is adjusted for all types of risks.
- (d) Remuneration involves a balance between fixed and variable pay (including cash, stock linked instruments or mix of both) reflecting short and long-term performance objectives appropriate to the working of the company and its goals.

The remuneration of KMPs is determined and approved by the Board at the time of appointment and any subsequent increments are approved by the MD & CEO.

(iii) Remuneration of MD & CEO / Executive Directors

The remuneration of the MD & CEO / Executive Directors is determined annually and periodically reviewed and revised by NRC and recommended to the Board of Directors for their consideration and approval subject to the prior approval of shareholders in the General Meeting. The remuneration and the actual payout are subject to the prior approval of IRDAI. The remuneration of the MD & CEO is directly linked to the objectives of the company, Company's performance, appropriate benchmarks, industry ranking / standards, market trend and applicable statutory provisions and includes but is not limited to:

- (a) Growth
- (b) Persistency;
- (c) Solvency
- (d) Grievance Redressal
- (e) Expenses of Management
- (f) Claim Settlement
- (g) Claim Repudiations
- (h) Overall Compliance Status

- (i) Overall financial position such as Net-Worth Position of Company, Asset under Management (AUM) etc. more illustratively described in “Remuneration Guidelines for MD& CEO”.

The design of the MD & CEO remuneration will be governed by the guidelines enumerated in the “Remuneration Guidelines for MD & CEO”

(iv) Remuneration of Non-Executive / Independent Directors

Profit related Commission subject to the Company making profits within the overall ceiling of 1% of the net profits of the Company as computed in pursuance to the provisions of Section 197 and such other applicable provisions of Companies Act, 2013, if any, shall be paid to the Non-Executive Directors and the Independent Directors subject to the review by the NRC and approval of members in the general meeting. However, as per the IRDAI (Remuneration of Non – executive Directors of Private Sector Insurers) Guidelines, 2016, such payment shall not exceed Rs. 10 lacs per annum for each such Director excluding Chairman of the Company.

The remuneration of the Chairman may be decided by the Board of Directors separately.

The sitting fees shall be paid to the Non-Executive Directors and the Independent Directors within the limits as prescribed under the provisions of Section 197 and other applicable provisions of the Companies Act 2013.

The Company shall also reimburse the expenses for attending the Board and other Committee meetings including travelling, boarding and lodging expenses to the Non-Executive Directors and the Independent Directors subject to the approval of Members in the General Meeting.

6. CLAWBACK

In case of deferred remuneration, in the event of significant and material negative trends arising out of factors within management control, in the parameters specified in clause 5 (iii) in any year during the vesting period, any unvested /unpaid portions will be clawed back. However, while exercising such provisions due consideration will be given by the NRC & the Board to the actual / realized performance of the company, and the contributing factors to the deterioration in such performance trends.

7. ANNUAL PERFORMANCE EVALUATION

(i) Performance Evaluation of Employees:

The performance of the employees is evaluated on annual / half yearly basis as per Company's performance evaluation process. The performance objectives of all employees are determined and aligned with the overall goals / objectives of the Company. The performance ratings and the increments are considered on the basis of individual as well as Company performance, appropriate benchmarking and applicable policies. Managing Director & CEO conducts the annual performance review of Senior Management / his Direct Reports.

(ii) Performance Evaluation of Managing Director & CEO / Executive Directors

As per separate “Remuneration Guidelines for MD& CEO”.

(iii) Performance Evaluation of Independent Directors

The performance evaluation of Independent Directors shall be done by the Board of Directors, excluding the director being evaluated. The evaluation should be carried out as per Schedule IV (Code for Independent Directors) of the Companies Act 2013.

Each Non-Executive Independent Director’s (“NEID”) contribution will be assessed by the Chairman and Vice Chairman of the Board and the results of the assessment be discussed with the NRC Chairperson. The contribution of the NRC Chairperson will be assessed by the Chairman of the Board and the result of the assessment be discussed with the senior most Independent Director. Criteria for assessment of NEIDs include attendance record, intensity of participation at meetings, quality of interventions and special contributions.

Independent directors have key roles, namely, governance, control guiding strategy, statutory compliances and such other key points which could be of importance to the Company. Some of the performance indicators on which the Independent Directors evaluated are:

- a) Ability to contribute to and monitor the Company’s corporate governance practices.
- b) Ability to contribute by introducing international best practices to address top management issues.
- c) Active participation in long term strategic planning.
- d) Commitment to the fulfillment of duties and fiduciary responsibilities as enshrined in various statutes and charter of Committees.
- e) Upholding of ethical standards of integrity and probity. f) Not allowing any extraneous considerations that will vitiate his/her exercise of objective independent judgment in the paramount interest of the Company as a whole, while concurring in or dissenting from the collective judgment of the Board in its decision making.
- g) Refraining from any action that would lead to loss of his/her independence.
- h) Striving to attend all meetings of the Board of Directors and Board Committees of which he/she is a member and general meetings of the Company.
- i) Not disclosing confidential information, including commercial secrets, technologies, advertising and sales promotion plans, unpublished price sensitive information, unless such disclosure is expressly approved by the Board or required by law.

The re-appointment of the Independent Directors shall be determined on the basis of their performance evaluation report.

(iv) Performance Evaluation of Directors

The performance evaluation of individual directors could be done by a peer group comprising the entire Board of Directors, excluding the director being evaluated; and peer group evaluation. The performance of individual Directors shall be evaluated, amongst other things, on the basis of contribution and effectiveness in corporate governance, leadership through vision and values, strategic thinking and decision making, commercial and business acumen, teamwork, contribution to resolution of divergent views, proactive participation and time commitment. The performance of the individual Director will also be assessed on how well he or she handles situation of direct or indirect interest that conflicts, or possibly may conflict, with the interest of the Company, avoids undue gain or advantage either to himself or to his relatives, partners, or associates. In determining the re-election of a director, the Board shall consider the performance review carried out by the Independent Directors, Director's past attendance at meetings and participation in and contributions to the activities of the Board.

(v) Board Performance

The Board shall have an effective mechanism for evaluating its performance on a continuing basis. Meaningful Board evaluation requires an assessment of the effectiveness of the Board, the operations of Board Committees and the contributions of individual directors.

a) Mechanism for Performance Evaluation of Board:

- i. A Committee comprising of the Chairman and Vice Chairman of the Board will meet with each director separately seeking input in relation to:
 - (a) Performance of the Board;
 - (b) Performance of each Board Committee;
 - (c) Performance of the Chairman and Vice Chairman;
 - (d) Performance of the Managing Director and Executive Directors;
 - (e) their own performance; and
 - (f) Ideas for improvement.
- ii. Performance should be assessed quantitatively (and qualitatively, as appropriate) against various criteria, strategic plans and the role/position description.
- iii. The Committee will collate the input and provide an overview report for discussion by the Board.
- iv. The Board should evaluate its effectiveness in use of time, whether Board allowed sufficient opportunity to adequately assess management performance, Board's ability to keep abreast of developments in the wider environment, adequacy of meeting frequency and duration.

- v. The Board should consider working relationship between Chairman and Managing/Executive Directors, segregation of duties between Board and management, ability of Directors to express views to each other and to management in a constructive manner, adequacy of Board discussions and management of divergent views.
- vi. The Board as a whole will discuss and analyse its own performance during the year including suggestions for change or improvement, as well as any skills, education, training or development required over the forthcoming year and adequacy of procedures dealing with inadequate performance by a Board member.
- vii. The Independent Directors shall hold at least one separate meeting in a financial year to review the performance of non-independent directors and the Board as a whole. The Independent Directors shall also review the performance of the Chairman and Vice Chairman of the Board, taking into account the view of the Executive as well as Non-Executive Directors. The Independent Directors shall assess the quality, quantity and timeliness of the flow of information between the management and the Board that is necessary to enable the Board to discharge its duties reasonably and effectively.

b) Mechanism for Performance Evaluation of Chairman and Vice Chairman of the Board:

The non-executive Directors, led by NRC Chairperson shall be responsible for the performance evaluation of the Chairman and Vice Chairman of the Board taking into account the views of the Managing Director / Executive / Whole Time Directors.

The performance of the Chairman and Vice Chairman of the Board shall be evaluated, amongst other things, on the basis of contribution and effectiveness in corporate governance, leadership through vision and values, strategic thinking and decision making, commercial and business acumen, teamwork, contribution to resolution of divergent views, proactive participation, interaction with management and relationships / communications with shareholders.

(vi) Mechanism for Performance Evaluation of Board Committees

This policy is to ensure Committees to which the Board has delegated responsibilities are performing efficiently and effectively in accordance with the duties and responsibilities set out in their respective charter.

Each year the Board will undertake the following activities: The Board will review the necessity of establishing any Committees and delegating certain of its responsibilities to the Committees.

The Board will review the Committees achievements during the year based on their respective duties. The Board will review the charters of the Committees once per year to ensure that they are up to date.

(vii) External Consultants

The NRC/Board may engage independent external consultants periodically to provide advice and assistance in the evaluation process.

8. DISCLOSURES

The Board's report shall contain a statement indicating the manner in which formal annual evaluation has been made by the Board of its own performance and that of its Committees and individual Directors.

9. REVIEW OF THE POLICY

This policy will be subject to annual review by NRC keeping in view the regulatory changes, other benchmarks, industry practices etc. and the recommendation(s), if any, will be placed before the Board of Directors for their approval.