

# Policy on appointment and Remuneration of Non- executive directors, MD / CEO, and Whole Time Directors



**Effective Date:** January 04, 2020

**Policy Category:** Compensation Version: 1.1

## **Guiding factors**

This Policy is formulated in terms of the IRDAI Guidelines on Remuneration of Non-Executive Directors, Managing Director, CEO and Whole Time Directors dated August 05, 2016 and also in compliance with the provisions of Section 134 and Section 178 and other applicable provisions of the Companies Act 2013.

The philosophy for remuneration is based on the commitment of fostering a culture of leadership with trust, and the policy is aligned to this philosophy. The Policy shall be reviewed annually by the Board on recommendation of the Nomination and Remuneration Committee (“NRC”).

Key principles governing this Policy are as follows:

### **1) Criteria for appointment of Directors**

The NRC shall *inter alia* consider below factors in determining the qualification, positive attributes, integrity, etc. for appointment of all Directors on the Board:

- i. Compliance with the ‘Fit and Proper’ criteria as specified under IRDAI Corporate Governance Guidelines dated May 18, 2016 (as amended from time to time) including but not limited to:
  - a. Background of the Director;
  - b. Academic records/background, educational qualifications, including specialized qualifications in relevant areas like business/corporate management, finance, marketing, risk, compliance, legal etc;
  - c. The overall experience of the Directors to include various areas of financial and management expertise such as accountancy, law, insurance, pension, banking, securities, economics, or such other qualifications and experience / expertise, including industry experience, that may be deemed appropriate;
- ii. Disclosures received from the directors under sections 184, 164, and other relevant provisions of the Companies Act, 2013, as amended from time to time;
- iii. Any other details that the Committee might feel appropriate.

Additionally, for appointment of Independent Directors, the independence of such Directors shall be assessed as per the criteria of Independence as specified under the Companies Act, 2013 and any other regulation, as may be applicable from time to time.

### **2) Remuneration for Independent Directors (“ID”) & Non-Independent Non-executive Directors (“NED”)**

Independent directors and Non-independent Non-executive directors may be paid sitting fees for attending the meetings of the Board and of Committees within regulatory limits.

- a) Within the parameters prescribed by law, the payment of sitting fees will be recommended by the Nomination & Remuneration Committee (NRC) and approved by the Board.
- b) Quantum of sitting fees may be subject to review on a periodic basis, as required.
- c) In addition to the sitting fees, 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, such as travel and other expenditure incurred by the director for attending Board/ Board committee meetings, general meetings, meetings with

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

### **3) Remuneration for Managing Director (“MD”)/ CEO**

a) The extent of overall remuneration shall be sufficient to attract and retain talented and qualified individuals suitable for the role. Hence remuneration will be:

- Market competitive (market is defined as companies from which the Company attracts talent or companies to which the Company loses talent)
- Reflective of PNB MetLife’s size, complexity of the sector / its operations and its capacity to pay,
- Consistent with recognized best practices
- Adjusted for all kinds of risks
- Aligned to any regulatory requirements and PNB MetLife’s compensation philosophy and principles.

b) Following parameters will govern the overall remuneration structure for the MD :

- PNB MetLife’s overall financial position such as Net-Worth Position, Asset under Management (AUM) etc.
- The mix of cash, equity and other forms of remuneration are consistent with risk alignment. For the purposes of risk adjustment, a wide variety of measures of credit, market and liquidity risks will be used, which will preferably have both quantitative and judgmental elements, including but not limited to
- Persistency
- Solvency
- Grievance Redressal
- Expenses of Management
- Claim settlement
- Claim repudiations
- Overall Compliance status

c) **In terms of remuneration mix or composition,**

- The remuneration mix for the MD is as per his/her employment contract, as approved by the shareholders. In case of any change, the same would require the approval of the shareholders.
- Basic/ fixed salary is provided to ensure that there is a steady income in line with the person’s skills and experience.
- In addition to the basic/ fixed salary, the Company provides the MD with certain perquisites, allowances and benefits to enable a certain level of lifestyle and to offer scope for savings and tax optimization, where possible. The Company also provides all employees, including the MD, with a social security net (subject to limits) by covering medical and hospitalization expenses, through reimbursement or insurance, accidental death and dismemberment cover through personal accident insurance and Life cover through term insurance.
- The Company provides retirement benefits and leave encashment as applicable to all employees, including the MD.

- In addition to the basic/ fixed salary, benefits, perquisites and allowances as provided above, the Company provides the MD such remuneration by way of a variable pay, as may be determined by the Board, subject to the overall ceilings stipulated under the IRDAI Guidelines and the provisions of the Companies Act as may be applicable.

d) **Variable Pay Composition, Claw back, Deferral, Guaranteed Bonus and Severance Pay**

- While designing the remuneration arrangements, it would be ensured that there is a proper balance between fixed pay and variable pay.
- The variable pay could be in cash, stock linked instruments or mix of both. However, Employees Stock Option Plan (ESOP) will be excluded from components of variable pay. Proper balance between the cash and stock / share components (other than ESOP) in the variable pay will be maintained in case the variable remuneration contains stock or equity share linked instruments (other than ESOP).
- The bonus / variable pay payable to the MD would be based on performance as evaluated by the Board or the Nomination and Remuneration Committee (“NRC”) and approved by the Board and would be driven by the outcome of the performance appraisal process and the performance of the Company. The deterioration in the financial performance of PNB MetLife and the other parameters specified at para 2(b) would be considered by the NRC/ Board while deciding on the total amount of variable remuneration to be paid.
- **Deferral** - In case the Variable Pay, as determined by the NRC and Board, constitutes a substantial portion of the total pay, [55% or more], an appropriate portion of such variable pay, [40% of such variable pay] would be deferred over a period of three years and the remuneration payable under deferral arrangements will vest no faster than on pro-rata basis.
- **Clawback** - In case of deferral remuneration, in the event of any negative trend in the parameters specified in para 2(b) and/or the relevant line of business in any year during the vesting period, any unvested / unpaid portions can be clawed back. However, while exercising such provisions due consideration will be given to the actual / realized performance of the Company. The Claw back system shall be driven by observable and verifiable measures of risk outcomes. The decision taken by the Board in this regard shall be final.
- **Guaranteed Bonus:** The Company may provide joining / sign on bonus to the Managing Director at the time of appointment, limited to first year. However, the payment of such bonus may be deferred beyond the year of joining. Payments for any other form of Guaranteed Bonus would be in form of ESOPs only.
- **Severance Pay** - Payment of Severance Pay other than accrued benefits (gratuity, pension, etc.) to MD will be made only with the prior approval of the Board. It is clarified that severance pay does not include Notice Period pay.

e) **ESOPS / Sweat Equity**

In the event of being made available, ESOPs will be excluded while computing the total remuneration, but the extent of ESOPs provided would be reasonable and as approved by the Board. The details of ESOP granted to MD will also be disclosed in terms of the disclosure requirements stipulated for the financial statements of the Company.

In case the shares of the Company are offered as ESOPs to the MD/CEO, then:

- If the CEO/MD is one of the promoters / investors or directly related to the promoters, then the same will be governed by the provisions of SEBI (Issue of Sweat Equity) Regulations, 2002 as amended from time to time except those relating to pricing of shares. The manner of pricing of shares shall be disclosed upfront to IRDAI.
- In other cases, the same will be governed by the SEBI's ESOP guidelines.

**Sweat Equity:** In case the shares of PNB MetLife are issued as Sweat Equity, then the same will be governed by the provisions of the Sweat Equity Regulations issued by SEBI.

**f) Manner of appointment and reporting**

The MD shall hold an independent seat on the Board and shall not be a nominee of any shareholder. He/ she shall report to the Board of Directors.

The appointment and remuneration to be paid to the MD shall be decided by the Board on the recommendation of the NRC, which shall be subject to the prior approval of the IRDAI. The appointment and any change in remuneration shall also be approved by the shareholders of the Company.

The Company shall in its Annual Report, make all necessary disclosures in terms of the remuneration process and Policy, as may be required under the applicable IRDAI Guidelines and the Companies Act 2013.

**g) Accounting and renewal of remuneration**

- No revision in remuneration shall be permitted till the expiry of one year from the date of earlier approval by IRDAI, save where, revision is made to align the remuneration to annual increment cycle of the Company. The Company follows an annual increment process in April for all employees (including the CEO/MD).
- In case the annual remuneration of the MD/ CEO/ WTDs exceeds Rs.1.50 Crore (including all perquisites plus bonuses etc., by whatsoever names), such excess shall be borne from the Shareholders 'account.
- No remuneration shall be paid to MD/CEO/WTDs by any of the promoter / investor or by the group companies of the promoters'/ investors' companies.

**4) Policy Management**

Policy review: The Policy shall be reviewed every year by the Nomination & Remuneration Committee and the Board for approval.