

REMUNERATION POLICY FOR THE EMPLOYEES OF THE COMPANY

Objective: To attract and retain required talent and drive performance / meritocracy.

Eligibility: All permanent employees of the Company including CEO, Whole Time Director & Managing Director

Scope: The Compensation policy details

- 1) Compensation Components in the organization and the conditions for their application in specific situation.
- 2) Process of aligning compensation to business objectives and market reality / trends.
- 3) Compensation Governance mechanism including statutory compliances.
- 4) To achieve alignment between risks and remuneration

Overview:

AFLI aims to adopt compensation practices capable of guaranteeing distinctive compensation solutions that best drive our overall business and people strategies. The Company follows a comprehensive approach in designing pay structure which helps in:

- Attracting & retaining required talent
- Building high performance culture
- Differentiating between good and superior performance levels
- Driving organizational long-term objectives.

The NRC/ Board would always maintain a fine balance between reasonableness and fairness, while making remuneration-related decisions.

In order to address Compensation Strategy as a whole, this policy details 1) Pay Structure; 2) Pay Positioning - External Competitiveness; 3) Pay Positioning - Internal Equity; and 4) Governance.

Pay Structure

At AFLI, Total Compensation currently comprises of three elements viz 1) Fixed Pay; 2) Benefits & Perquisites; 3) Incentives / Annual Bonus/ Variable Pay

In future, the Company proposes to launch a Long-Term Incentive Policy (Deferred Pay) to attract and retain talent, after due deliberations and approval of the Nomination & Remuneration Committee and the Board.

Details of various components under Fixed Pay and Benefits & Perquisites are given in Annexure 1.

1. Fixed Pay: is defined as Total Guaranteed Cost (TGC). Its structure and various components are given in Annexure 1.
2. Benefits and Perquisites: Elements which supplement guaranteed components are covered under Benefits & perquisites. Details of the same are given in Annexure 1.
3. Incentives/Annual Bonus/Variable Pay: This is variable component that drives immediate (for the

given period) performance by motivating employees to contribute discretionary efforts and abilities. This is performance (rating / achievement slab) linked. Most of the sales employees are covered under Sales incentive plans, whereas support staff and leadership team are covered under Annual Bonus. Annual bonus is linked to performance rating. Grid is arrived at every year based on company performance and market intelligence.

4. **Joining Bonus:** These may be offered sparingly for recruitment of new staff. Joining bonus, if offered, will be as approved by the CEO/ Managing Director, and the Head – Human Resources as per policy of delegation of authority.

5. **Annual Bonus/Variable Pay for Chief Executive Officer/Whole Time Director/Managing Director** is linked to performance rating grid arrived at every year based on company performance and the parameters defined by the Nomination & Remuneration Committee of the Board at the beginning of the year which are generally as under;

- Solvency Ratio
- Expense of Management Ratio
- Embedded Value (EV)
- Net Worth
- Assets Under Management
- Persistency
- Grievance Redressal Management
- Claims Settlement & Repudiations
- Overall Compliances

Total pay-out of variable pay will be directly proportional to the financial performance of the Company and the risk parameters as defined above. In case there is deterioration in the same, the variable pay-out will contract in accordance with adjustment for these parameters.

If variable portion of the total pay exceeds 60% or more of the total pay, it would be treated as 'substantial' and deferred over a period of three years as provided in Clause 6 (iv) read with Clause 9 of the IRDAI Guidelines IRDA/F&A/GDL/LSTD/155708/2016 dated August 5, 2016.

In this regard, 'substantial portion' shall mean 60% or more of the Total Remuneration i.e. (Fixed Pay, Benefits & Perquisites and Variable/Annual Bonus).

Severance Pay

The Severance Pay to MD/CEO/WTD (other than accrued benefits in the form of Provident Fund, Gratuity or Superannuation) shall be subject to the prior approval of the Board. The severance pay does not include notice period pay.

Clawback

In case of negative trends in the parameters of the performance as defined above, the unpaid portion of the deferral variable pay may be clawed back by the Company. The norms of claw back shall be decided by the Nomination & Remuneration Committee of the Board based on actual/realized performance of the year, legal enforceability, and verifiable measures of risk outcomes.

Pay Positioning - External Competitiveness

To make informed decision about its compensation level, AFLI analyses the overall compensation trends in the Life Insurance Industry. Continuous monitoring of market trends and awareness of compensation structure contributes to sound formulation of competitive compensation. On the basis of regular benchmarking AFLI aims to adopt competitive range in compensation levels, pay mix and total compensation.

Each year AFLI participate in LI compensation survey managed by a consultant finalized by HR - Life Council. For past two years the survey is managed by AON Hewitt in which 21 out of 24 LI companies participated.

This survey provides compensation data across four levels of granularity-

- Level Report – Provides compensation details basis levels and is agnostic of function or position.
- Level Function Report - Provides compensation details basis levels in specific functions.
- Level Sub Function Report - Provides compensation details basis levels across sub functions.
- Position Report - It shares compensation data against unique position / roles in insurance space.

Above reports are provided at 1) Industry level, and 2) at Peer level (selected by individual company). AFLI selects a Peer Group from the participating organisations basis NBP, APE, Market share, companies to whom it loses talent. AFLI also refers cross industry (General Insurance / Banking / Mutual Fund / Telecom / Pharma / IT/ FMCG) compensation reports at generic level to analyse major variance if any. This data is used by AFLI to benchmark its compensation level and arrive at annual reward grid and corrections if any. This survey is also used to understand other HR policies at broader level being practised in LI Industry to take corrective actions wherever required.

AFLI aims to benchmark its compensation to specified percentile position in LI industry depending upon performance level / rating of the individual. Guidelines followed for market linked corrections are given below.

Performance Rating	1 to 3	4	5	6	7
Guideline for Min. Percentile Position	NA	P25	P50	P60	P75
<ul style="list-style-type: none"> • While providing the benchmark linked correction, along with performance rating, respective SMC feedback is considered on overall potential of the employee. • Also, a cap of maximum 10% of TGC of the employee is applied for market linked correction. 					

Pay Positioning - Internal Equity

AFLI follows annual increase as percentage of TGC linked to performance rating. Maintaining internal equity / parity basis Role Weightage and Performance, Potential is of great importance in establishing fair compensation policy and maintain desired motivation level amongst high performers. This enables AFLI to retain overall wage bill within acceptable level (as budgeted) and yet reward talent appropriately. Details of methodology to arrive at internal equity/parity is given below.

- **Role Weightage:** Various roles within the organization are categorized in four groups based on Leadership Level, Criticality to overall organizational / functional goal achievement, and Skill Set availability. Basis the role group a multiplier to the annual grid is applied. Details of groups

and multiplier is given below.

Role Group	RG1	RG2	RG3	RG4
Group Description	Key Persons	Departmental Heads	Skill Specialist, Team Leads, Sr. Support Staff	Support Staff, MIS resources
Multiplier	1	1	0.85	0.70

- Role Parity:** For roles with many employees (e.g., Sales Supervisors, Branch Heads, etc) fixed amount increase linked to performance rating is provided. The fixed amount is arrived at by applying performance linked percentage increase to the mean salary of all role holders. This helps to keep a check on the widening salary gap between employees in the same role based on joining salary.

Performance Parity/Equity: AFLI believes that transparent compensation policy supports the high-performance corporate culture as the employees understand what behaviour and performance levels are expected / rewarded. Employees are rated on a scale of 1 to 7 with 7 being the highest. Performance level and rating are given in the table below. Annual increment grid is arrived at based on inflation rate and Industry trend captured through surveys. It is generally attempted to meet at least inflation level for employees who meet expectations i.e. rating 4. Employees with rating 5 and above are provided higher than inflation rate to enable them to get real increase and employees with rating 2 & 3 are provided much less than inflation rate. To maintain high performance work culture, all employees rated 1, and many of the employees rated 2 are asked to leave.

Governance

Efficient corporate and organizational governance structures are an essential prerequisite for the pursuit of our organizational objectives. We ensure that compensation decisions are made in an independent, informed, and timely manner at appropriate levels, avoiding conflicts of interest.

Overall wage bill provided for in the Annual Budgets approved by the Board forms the basis of arriving at compensation related decisions. CPO in consultation with CFO recommends the proposed reward grid for the year under review for CEO's approval. Once approved by CEO, the same is implemented. Any deviation / case specific decision requires CPO and CEO's approval.

During the annual review, each SMC member is expected to distribute performance ratings of his team members as far as possible close to the defined bell curve. Representative desired rating distribution is given below.

1	2	3	4	5	6	7
2%	8%	20%	40%	20%	8%	2%

Note: Rating Distribution is basis approved Performance Appraisal guidelines

Annexure 1

Fixed Pay Components:

Components	Remarks/ Limit
Cash Salary	
• Basic	40% of CTC
• HRA	50% of Basic
• Conveyance Allowance	Max. INR 9600 per annum
• Special Allowance	Balancing Figure for TEC
• Statutory Bonus	If applicable as per Minimum Wages Act
Flexi Components	
• LTA	Max. INR 50,000/ per annum
• Car & Fuel Maintenance	Max. INR 5,00,000/ per annum
• Books and Periodical	Max. INR 9,000/ per annum
Benefits	
• ESIC	If Applicable
Retirement Benefits	
• Provident Fund	12% of Basic
• National Pension Scheme	Up to 10% of Basis
• Gratuity	15 Days of Basic Pay for every Year of Service with AFLI

Note: Car & Fuel Maintenance amount is basis approved Own Your Car Scheme
NPS is as per NPS scheme

Based on employee preference AFLI may introduce "Supper Annuation" element under Retrial benefits keeping the total cost to company unchanged.

Benefits and Perquisites Elements:

Benefits & Perquisites		
• Medclaim	As per Grade eligibility	All employees
• Life Insurance & Personal Accident Insurance		All employees
• Wellness Benefits		For SMC
• Own your Car		For VP and above
• Club Membership		For SMC
• Corporate Credit Card		For CEO & WTD

Section B – Remuneration Policy for Directors & KMP

(I) Criteria for Determining Qualifications, Positive Attributes & Independence of Director:

1. Qualifications of Independent Director:

An Independent director shall possess appropriate skills, experience and knowledge in one or more fields of finance, law, management, sales, marketing, administration, research, corporate governance, operations or other disciplines related to the company's business.

2. Positive attributes of Independent Directors:

An independent director shall be a person of integrity, who possesses relevant expertise and experience and who shall uphold ethical standards of integrity and probity; act objectively and constructively; exercise his responsibilities in a bona-fide manner in the interest of the company; devote sufficient time and attention to his professional obligations for informed and balanced decision making; and assist the company in implementing the best corporate governance practices.

3. Independence of Independent Directors:

An Independent director should meet the requirements of the Companies Act, 2013 and Corporate Governance Guidelines issued by Insurance Development Authority of India concerning independence of directors.

(II) Remuneration Policy for Directors, Key Managerial Personnel and other employees

A. NON-EXECUTIVE DIRECTORS (NEDs)

NEDs shall be paid a sitting fee of Rs. 50,000/- for every meeting of the board and Rs. 30,000/- or committee thereof attended by them as member. These fees are subject to change from time to time as per the decision of the Board and Directors, within the statutory limits.

The company has no stock options plans and no payment by way of commission, bonus, pension, incentives etc. shall be paid to NED.

B. MANAGING DIRECTOR & KEY MANAGERIAL PERSONNEL & OTHER EMPLOYEES

The objective of the policy is directed towards having a compensation philosophy and structure that will reward and retain talent.

The Remuneration to Chief Executive Officer or Managing Director shall take into account the Company's overall performance, MD's contribution for the same & trends in the industry in general, in a manner which will ensure and support a high performance culture.

The remuneration of CEO/WTD/MD shall be governed in accordance with IRDAI guidelines, Insurance Act & the Companies Act, 2013 as applicable from time to time.

The company has no stock options, plans and hence, such instruments do not form part of the remuneration package.

The Remuneration to others will be such as to ensure that the relationship of remuneration to performance is clear and meets appropriate performance benchmarks.

Remuneration to Directors, Key Managerial Personnel and Senior Management will involve a balance between fixed and incentive pay reflecting short and long term performance objectives appropriate to the working of the Company and its goals.

The above criteria and policy are subject to review by the Nomination & Remuneration committee & the Board of Directors of the Company.
