

IDBI FEDERAL LIFE INSURANCE COMPANY LTD

STEWARDSHIP CODE

Version 2
24/04/2020

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Version and approval history

Version	Meeting Date	Approved at
1	August 4, 2017	49 th Board Meeting
2	May 8, , 2020	60 th Board Meeting

Preamble & Introduction

Stewardship code is a set of principles or guidelines aimed primarily at institutional investors, who hold shares, and thus, voting rights in companies. Implying that it is part of the fiduciary duty of investors to behave as good owners of companies, stewardship codes require investors to monitor and, where necessary, engage with companies on material matters, including Environmental, Social and Governance issues and to vote their shares at company AGMs and EGMs. It also includes the matters on strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration.

Companies and investors have a symbiotic existence: companies need investors, as much as investors need companies. Consequently, effective stewardship and effective governance go together. For a company to be able to act in the investors' best interest, it also needs to understand the investors' perspective. The stewardship code sets out a framework that encourages the investors to engage with companies they have invested in and their boards. This benefits both, the companies and the investors.

Stewardship codes are being introduced globally. After the UK adopted a Stewardship Code in 2009, about eight other countries have similarly mandated stewardship requirements, including a few Asian countries such as Malaysia, Japan, and Taiwan. Singapore and South Korea, have set up working groups to develop stewardship codes. Under the umbrella of a stewardship code, investors have been able to achieve different agendas – from getting more independent directors on boards, to ensuring that annual reports are being published in time.

Insurance companies being significant institutional investors in listed companies and the investments are held by insurance companies as custodians of policyholders' funds. The state of governance of the investee companies is an important aspect and insurance companies must ensure that investee companies maintain corporate governance standards at high level. Therefore, insurance companies should play an active role in the general meetings of investee companies and engage with the managements at a greater level to improve their governance. This will result in informed decisions by the parties and improve the return on investments of insurers which will ultimately benefit the policyholders.

Annexure 1: The seven principles of stewardship code outlined by the IRDAI

1. Formulate a policy on the discharge of stewardship responsibilities and publicly disclose it
2. Have a publicly-disclosed clear policy on managing conflicts of interest in fulfilling stewardship responsibilities and publicly disclose it

3. Monitor investee companies
4. Have a clear policy on intervention in their investee companies
5. Have a publicly-disclosed clear policy for collaboration with other institutional investors, where required, to preserve the interests of the policyholders (ultimate investors)
6. Have a clear policy on voting and disclosure of voting activity
7. Report periodically on stewardship activities

India, to a large degree, has relied on regulations to evolve its corporate governance agenda. The more recent regulations have balanced this agenda by empowering the shareholders to assert their rights – in the form of more convenient voting processes, and requisite specific approvals in the case of related party transactions. However, these measures are effective only on specific issues. To build a holistic environment that rewards good governance practices, the institutional investors must undertake focused stewardship activities.

While the Securities and Exchange Board of India has long since mandated mutual funds to vote on shareholder resolutions, the Insurance Regulatory Authority of India (“**IRDAI**”) on March 22, 2017 prescribed stewardship principles to be adopted and implemented by the insurers (“**Stewardship Principles**”). Further, IRDAI issued revised Guidelines on the Stewardship Code for Insurers in India vide Circular dated February 7, 2020, bearing (Ref : IRDAI/F&A/GDL/CPM/045/02/2020) making it more comprehensive and effective. The revised guidelines are applicable for compliances by the insurance Companies from FY 2020-21.

Stewardship Code

Stewardship aims to promote the long-term success of investee companies in such a way that the ultimate providers of capital also prosper. Effective stewardship benefits investee companies, Insurers / Asset Managers, investors, policyholders' and enhances the quality of capital markets.

IDBI Federal Life Insurance Company Limited ("**Insurer / IFLI**") has adopted this revised Stewardship Code pursuant to the approval of the *Board of Directors*.

1. Key Stewardship Responsibilities

1.1. Primary Stewardship Responsibilities: IFLI shall:

- a) take into account the corporate governance practices of investee companies, when undertaking buy and sell decisions;
- b) enhance shareholder/investor value through productive engagement with investee companies, wherever practical;
- c) vote and engage with investee companies in a manner consistent with the best interests of its shareholders/investors;
- d) Maintain transparency in reporting its voting decisions and other forms of engagement with investee companies;
- e) Managing Conflict of Interest;

1.2. Discharge of Stewardship Responsibilities: IFLI shall discharge its stewardship responsibilities through:

- a) voting on shareholders' resolutions, with a view to enhance value creation for the shareholders/investors and the investee companies;
- b) advocating for responsible corporate governance practices, as a driver of value creation;

1.3. Responsibility for oversight of the stewardship activities:

The Audit committee of IFLI ("**Committee**") shall ensure that there is an effective oversight of IFLI's stewardship activities.

- 1.4. Disclosure of Stewardship Code: This Stewardship Code and amendment thereto, shall be disclosed on the website of IFLI. Any amendment or modification to this Stewardship Code/policy should be specifically disclosed at time of uploading document on website.
- 1.5. Disclosure of Stewardship Activities: IFLI shall also disclose:
 - a. Quarterly publication of participating & voting by Company to be disclosed along with “Public Disclosures” on the website in the format issued by the IRDAI
 - b. File Annual Certificate of Compliance approved by Board in the format issued by the IRDAI, signed by CEO and Compliance Officer on or before 30th June every year.
 - c. Provide a periodic report to their ultimate beneficiaries (policyholders) on how IFLI have discharged their responsibilities, in a format which is easy to understand, as a part of public disclosures

2. Managing Conflict of Interest

- 2.1. The term “conflict of interest” refers to instances where personal or financial considerations may compromise or have the potential to compromise the judgment of professional activities. A conflict of interest exists where the interests or benefits of IFLI (including its employee, officer or Director) conflict with the interests or benefits of its shareholder/investor or the investee company.
- 2.2. Avoid conflict of interest: The employees, officers and Directors of IFLI shall undertake reasonable steps to avoid actual or potential conflict of interest situations. In the event of any doubt as to whether a particular transaction would create (or have the potential to create) a conflict of interest, employees, officers and directors shall consult with the Audit Committee or Compliance Officer.
- 2.3. Identifying conflict of interest: While dealing with investee companies, IFLI may be faced with a conflict of interest, *inter alia*, in the following instances, where:
 - a) IFLI and the investee company are part of same group; or
 - b) the investee company is also a client of IFLI or its group companies or affiliates;
 - c) IFLI is a lender to the investee company;
 - d) the investee company is partner or holds an interest, in the overall business of IFLI’s group;

- e) any of the group companies or affiliates of IFLI is a supplier or partner of the investee company;
- f) a director or a key managerial person of IFLI or their dependent family members has a personal interest in the investee company;
- g) IFLI (including its employee, officer or director or their dependent family members) is likely to make a material financial gain, or avoid a loss, at the expense of a shareholder/investor or the investee company.

2.4. Manner of managing conflict of interest:

- a) Any potential situation creating conflict of interest will be brought to the notice of the Compliance Officer / Audit Committee by such employee, officer or Director beforehand; who shall offer the necessary guidance, advice or decision; in consultation of the Board of Directors of IFLI, if so needed.
- b) On a *half yearly* basis, every Access Person, as defined under 'Dealing/Trading in Securities' policy of IFLI must submit to the Compliance Officer a securities statement setting out the details of the securities of listed companies and unlisted companies held by him/her (including the securities held by his/her immediate dependent relative). They shall also provide on an annual basis their demat account statement. This approval also includes taking part in Initial Public offer of investee companies.
- c) Rationale for voting on each shareholder resolution shall be recorded in the internal records of IFLI.
- d) Access Persons of IFLI will record their outside appointments/professional engagement with the Compliance Officer and Chief Investment Officer and same shall be recorded prior to entering into such outside appointment.
- e) Save as in the ordinary course of business, the members of the Committee and Compliance Officer shall not engage with the investee companies outside the scope of their duties under the Stewardship Code.
- f) IFLI will abstain from voting when IFLI and the investee company are part of the same group, unless IFLI records rationale for voting on such resolutions and takes prior approval from its Audit Committee.
- g) Business level conflicts shall be resolved on a case to case basis by the Committee, after factoring the relevant considerations.

3. Training of personnel

IFLI shall also periodically undertake training of the concern team member(s) who are directly or indirectly connected with the implementation of this code, to enable them to understand and dispose off their stewardship duties effectively.

This training may be in the form of self-study and familiarization of the company's stewardship policy, by the investment team member(s). If there is additional need for training identified, the same will be evaluated and imparted.

4. Monitoring of Investee Companies

3.1. IFLI shall monitor all investee companies.

3.2. Manner of Monitoring:

- a) The Committee shall be responsible for the supervision of the monitoring of the investee companies' business strategy, performance, risks (including Environmental, Social and Governance (ESG) risks), capital structure, leadership effectiveness, succession planning, remuneration, shareholder rights and their grievances, corporate governance performance and reporting,
- b) IFLI may use publicly available information, sell side research and industry information and shall engage with the investee companies' investor analyst calls regularly, at such frequency as may be deemed appropriate by the Chief Investment Officer.

IFLI shall not encourage the investee companies to share any unpublished price sensitive information with IFLI which would make IFLI an 'insider', without a specific prior agreement with IFLI.

While dealing with the investee company, IFLI shall ensure compliance with the SEBI (Prohibition on Insider Trading) Regulations, 2015 as amended from time to time,

- c) IFLI shall to the extent feasible attend general meetings and other meetings conducted by the management of the investee company to which it is invited.
- d) IFIC, (?) if required may appoint a nominee director on the Board of investee company subject to compliance with Investment and other Regulations as may be applicable. .

3.3. Identify the responsibilities of the investee companies:

To the extent feasible, IFLI shall review the investee companies' business strategy, performance, risk, capital structure, leadership effectiveness, succession planning, remuneration, corporate governance, cultural, social and environmental matters.

4. Active Intervention in the Investee Company

4.1. Applicability

- a) IFLI shall intervene in the acts/omissions of an investee company, in which it:
 - (1) holds at least [3% of the share capital of the investee company; or
 - (2) 5% of the IFLI's total equity investments across all funds, as measured at the end of the previous quarter.

- b) IFLI shall intervene if, in its opinion any act/omission of the investee company is considered material on a case to case basis, including but not limited to insufficient disclosures, inequitable treatment of shareholders & their investments, non-compliance with regulations, performance parameters, governance issues, litigations, remuneration, related party transactions, leadership issues, corporate plans/ strategy, Environment, Social and Governance (ESG) risks, or any other related matters.

4.2. Intervention by IFLI: The decision for intervention shall be decided by the Chief Investment Officer based on the following broad parameters:

- a) IFLI shall not generally intervene if the threshold is below the prescribed level or investment is already earmarked for divestment.
- b) IFLI may consider intervening in matters below the thresholds, if in the reasonable opinion of the Chief Investment Officer, the issue involved may adversely impact the overall corporate governance atmosphere or IFLI's investment.

4.3. IFLI's intervention and escalation policy is as follows:

- a) **Engagement:** IFLI shall take all reasonable steps to engage with the investee company's management to resolve any concerns of IFLI including steps to be taken to mitigate such concerns.

- b) **Re-engagement:** In the event the management of the investee company fails to undertake constructive steps to resolve the concerns raised by IFLI within a reasonable timeframe, IFLI shall take all reasonable steps to re-engage with the management to resolve IFLI's concerns.

- c) Escalation: In case there is no progress despite the first two steps, IFLI shall escalate the matter to the Committee. If the Committee decides to escalate, IFLI shall engage with the board of the investee company (through a formal written communication) and elaborate on the concerns. IFLI may also consider discussing the issues at the general meeting of the investee company (either called by the investee company or requisitioned by IFLI).
- d) Reporting to the Regulators: If there is no response or action taken by the investee company despite the first three steps. IFLI may approach the relevant authorities.

In case IFLI's intervention is not successful (either fully or partially), it will not automatically result in IFLI being required to exit its investment in the investee company. The decision to purchase more equity or sell all or part of the IFLI's investment in the investee company shall be made by the Committee, which may consider the outcome of the intervention as an input in its decision-making process.

5. Collaboration with other Institutional Investors

- 5.1. IFLI shall consider collective engagement with *other shareholders / institutional investors / advisors / proxy advisory firms* on a general basis, whose interests are aligned with IFLI and in particular, when it believes a collective engagement will lead to a higher quality and/or a better response from the investee company. IFLI may approach, or may be approached by, other Asset Managers, including insurers, mutual funds, or other type of shareholders to provide a joint representation to the investee companies to address specific concerns. It is only when IFLI believes that collaborative action would be an effective means by which investors can exercise appropriate influence, IFLI will willingly initiate action or support other investors' actions.
- 5.2. IFLI shall also, where permitted, collaborate with other shareholders, professional associations such as *General Insurance Council of India, Life Insurance Council, Association of Mutual Funds in India, General Insurers' Public Sector Association, proxy advisory firms*; regulators such as IRDA, Pension Fund Regulatory and Development Authority, SEBI, and other policy makers to solicit views.
- 5.3. An illustrative list of matters which require collaborative engagement may include appointment or removal of directors, executive remuneration, change in the nature of business, mergers and acquisitions, divestment, matters dealing with inequitable

treatment of the shareholders & their investments, issue of further capital, raising of debt and related party transactions.

- 5.4. IFLI shall determine individually its position on any issue requiring collaborative engagement and shall not act or be construed as acting as a 'person acting in concert' with other shareholders.

6. Voting and disclosure of voting activity

- 6.1 To the extent necessary and feasible, IFLI shall exercise their voting rights and vote on shareholder resolutions of investee companies. IFLI will compulsorily undertake active participation and voting on resolutions/proposals of investee companies in which it:

- (1) holds at least [3% of the share capital of the investee company; or
- (2) 5% of the IFLI's total equity investments across all funds, as measured at the end of the previous quarter.

In other scenarios, participating and voting may be considered depending on significance & impact on the value of investments of IFLI.

- 6.2 Voting decisions shall be made solely with the intent to protect IFLI's/its policyholder's investment interests and as per the decision taken by the Investment Committee or the Chief Investment Officer in this behalf.
- 6.3 IFLI shall also consider several factors, including recommendations made by proxy advisory firms, while voting (if any). However, IFLI will not be bound by the recommendations made by proxy advisory firms, whose services are being availed. The recommendations by proxy advisory firms (if any), will be treated as one amongst several inputs, which IFLI would analyze for decision-making. IFLI shall vote against resolutions which are not in its investors'/shareholders'/policyholders' best interests. IFLI may also abstain itself from voting.
- 6.4 Attendance at General Meetings: IFLI shall attend general meetings of the investee companies (annual as well as any extra ordinary shareholders' meetings) where appropriate, and to the extent possible, actively participate and respond to the matters being discussed at such meetings.
- 6.5 IFLI shall be required to record and disclose specific rationale supporting its voting decision (for, against or abstain) with respect to each vote proposal.

- 6.6 In case IFLI engages in stock lending activity, it shall update the Investment Committee of the approach undertaken to comply with the stewardship principles, if materially different from those mentioned herein.

7. Reporting of Stewardship Activities

- 7.1. The Audit Committee shall have responsibilities on oversight of stewardship activities and monitoring of voting actions. A report on the Voting Actions undertaken will be presented to the Audit Committee on a Quarterly basis. A copy of the same will be submitted to the Investment Committee for its Information and noting.
- 7.2 IFLI shall provide a periodic report to ultimate beneficiaries (policyholders) on how IFLI have discharged their responsibilities under the Stewardship Code. The report shall be made available on IFLI's website.
- 7.3. The participation & voting by IFLI will be disclosed along with "Public Disclosures" on the website of the Company in the format prescribed by IRDAI.
- 7.2. IFLI shall submit an Annual Certificate of Compliance to IRDAI as approved by the Board and signed by CEO and Compliance Officer on or before 30th June every year.

Annex: IRDAI's Stewardship Principles

Principle 1: Insurers should formulate a policy on the discharge of their stewardship responsibilities and publicly disclose it.

Stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration.

The policy should clearly define the stewardship responsibilities as identified by the insurer and how it intends to fulfill the same to enhance the wealth of its clients. The policy should disclose how the insurer applies stewardship with the aim of enhancing and protecting the value for the ultimate beneficiary or client.

In case some of the activities are outsourced to some external service providers, the policy should provide the responsibilities to be delegated to such service providers and the mechanisms to ensure that the overall stewardship responsibilities are carried out seamlessly.

Policy should address all the aspects relating to Managing Conflicts of interest, Training of personnel, Monitoring & intervention of Investee companies, Collaboration with other Institutional investors & voting activities.

In case services of any external service provider are used, policy should provide for the mechanism to ensure that such cases, stewardship responsibilities are exercised diligently.

Core function cannot be outsourced, however professional advices to arrive at voting decision and research report like market survey data, Industry wide analysis, business valuation, etc may be sought from external agencies.

Policy shall be reviewed periodically.

Principle 2: Insurers should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it

Insurers should put in place, maintain and publicly disclose a policy for identifying and managing conflicts of interest with the aim of taking all reasonable steps to put the interests of their client or beneficiary first. The policy should also address how matters are handled when the interests of clients or beneficiaries diverge from each other.

- ❑ **Example of Conflicts of interest scenarios provided** – Investee Company being an Associate Company (Board is expected to identify all possible areas of Conflicts of interest and how they will be addressed)
- ❑ **Procedure for handling Conflicts of interest prescribed** – examples on handling conflicts provided as follows:
 - ❑ Blanket bans on investments in certain cases
 - ❑ Reference to Audit Committee for their consideration
 - ❑ Clear segregation of voting function and Clients Relation function/ sales function.
 - ❑ Policy to mandate recuse from decision making by persons having actual/potential conflicts of interest
 - ❑ Maintenance of Minutes on decision taken to address Conflicts of interest

Principle 3: Insurers should monitor their investee companies

Insurers should have mechanisms for regular monitoring of their investee companies in respect of their performance, leadership effectiveness, succession planning, corporate governance, reporting and other parameters they consider important.

Insurers may or may not wish to be made insiders (actively involved with the investee companies). An insurer who may be willing to become an insider should indicate in its stewardship statement the willingness to do so, and the mechanism by which this could be done.

Level of monitoring – higher level of monitoring where the Insurance Company’s exposure is high as a % of Insurer’s AUM vis-à-vis monitoring companies with insignificant % of AUM

Areas of monitoring Investee companies prescribed – to include Company performance, Industry-level monitoring, quality of Board/leadership, Corporate governance & Related party Transactions, Environmental, Social & Governance risks, Shareholder rights & grievances

Identification of situations which may trigger insider information & procedures adopted to comply with SEBI Insider Trading Regulations

Insurers will expect investee companies and their advisers to ensure that information that could affect their ability to deal in the shares of the company concerned is not conveyed to them without their prior agreement.

Principle 4: Insurers should have a clear policy on intervention in their investee companies

Insurers should set out the circumstances in which they will actively intervene and regularly assess the outcomes of doing so. Intervention should be considered regardless of whether an active or passive investment policy is followed. In addition, a low volume of investment is not, in itself, a reason for not intervening. Instances when insurers may want to intervene include, but are not limited to, when they have concerns about the company’s strategy, performance, governance, remuneration or approach to risks, including those that may arise from social and environmental matters.

The meetings should be held in a confidential manner with the view to resolve the issue constructively. If dissatisfied with the response of the investee company, the insurer may decide to escalate the matter, in accordance with the pre-defined policy.

- Situations where Insurance Company’s intervention in Investee Companies expanded to include leadership issues and litigations (besides poor financial performance, Corporate governance issues, remuneration, strategy, Environmental & Social risks)
- Methods of intervention in Investee Companies prescribed:
 - Meetings with management and if necessary escalated to the Board of Investee companies
 - Collaboration with other investors & voting against decisions

- Interaction with other insurance companies through Insurance Council on industry-level issues
 - Investment Committee to consider which mechanism to be opted and escalation of matters in specific cases.
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Principle 5: Insurers should have a clear policy for collaboration with other institutional investors, where required, to preserve the interests of the policyholders (ultimate investors), which should be disclosed

For issues that require larger engagement with the investee company, institutional investors may choose to act collectively in order to safeguard the interests of their investors. For such situations, the insurers should have a policy to guide their actions and extent of engagement.

Principle 6: Insurers should have a clear policy on voting and disclosure of voting activity

Insurers should not just blindly support the board of the investee company but, instead, take their own voting decisions to promote the overall growth of the investee companies and, in turn, enhance the value of their investors.

The voting policy should be publicly disclosed. The voting decisions taken in respect of all the investee companies should also be disclosed publicly along with the rationale.

Insurers should disclose the use made, if any, of proxy voting or other voting advisory services. They should describe the scope of such services, identify the providers and disclose the extent to which they follow, rely upon or use recommendations made by such services.

Insurers should disclose their approach to stock lending and recalling lent stock.

Role of Audit committee on Stewardship prescribed:

- ☐ oversight of Insurer’s Stewardship activities
- ☐ monitoring Voting decisions of the Insurance Company

Active participation & mandatory Voting by Insurance Companies mandated under the following circumstances:

- ☐ For insurers with AUM of up to Rs.2,50,000 crores – if the holding in the investee company exceeds 3% of paid-up capital of Investee Company
- ☐ For insurers with AUM exceeding Rs.2,50,000 crores – if the holding in investee company exceeds 5% of the paid-up capital of Investee Company
- ☐ In other scenarios, participating and voting may be considered depending on significance & impact on the value of investments of Insurance company

Principle 7: Insurers should report periodically on their stewardship activities

In addition to the regular fulfilment of their stewardship activities, institutional investors should also provide a periodic report to their ultimate beneficiaries (policyholders) of how they have discharged their responsibilities, in a format which is easy to understand, as a part of public disclosure.

However, it may be clarified that compliance with the aforesaid principles does not constitute an invitation to manage the affairs of a company or preclude a decision to sell a holding when this is considered in the best interest of clients or beneficiaries.