

POLICY ON RELATED PARTY TRANSACTIONS

(Duly Approved by the Board in its 596th Meeting held on 12th January 2021)

1. Preamble:

The Insurance Regulatory and Development Authority of India (IRDAI) issued comprehensive Guidelines on Corporate Governance for Insurers in India on 18th May, 2016, in the light of changes brought in by the Companies Act, 2013. The objective of the Guidelines was to ensure that the structure, responsibilities and functions of Board of Directors and the Management of the Insurer recognized the expectations of all stakeholders as well as those of the Regulator. The emergence of insurance companies as a part of financial conglomerates added a further dimension to sound Corporate Governance in the insurance sector with emphasis on overall risk management.

LIC is governed by LIC Act, 1956 and the regulations and guidelines issued by IRDAI from time to time. Investments in LIC are being made on the advice of Investment Committee in accordance with the provisions of Section 19 (2) of LIC Act and IRDAI Investment Regulations, 2016.

2. Applicability of the Policy:

This Policy shall be applicable to all Related Party transactions entered by the Corporation.

3. Objective of the Policy:

The objective of this Policy is to (a) Provide Definition of Transactions in the ordinary course of the insurance business giving examples specific to the insurance company (b) Set out Method of determination of arm's length pricing (c) List out the items requiring approvals from various authorities, Audit Committee, Board, Shareholders etc.

Definitions:

The Corporation: Shall mean the **Life Insurance Corporation of India**.

"Act": Shall mean the Companies Act 2013 as amended from time to time

"Audit Committee" shall mean a Committee of the Board of Directors of the Corporation, constituted in terms of Corporate Governance Guidelines, 2016.

“Arm’s length transaction”: Means a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest. In other words, the transaction with related party will be considered to be on Arm’s length basis if the key terms, including pricing of the transaction, taken as a whole, are comparable with those similar transactions, if they would have been undertaken with unrelated parties.

“Ordinary course of business”: Means the usual transactions, customs and practices undertaken by the Corporation to conduct its business operations and activities and includes all such activities that the Corporation can undertake as per LIC Act, Insurance Act and relevant IRDAI Guidelines, as amended from time to time, as well as any principles laid down by the Board and Audit Committee. The following factors are indicative of a transaction being in the ordinary course of business:

- a) The transaction is in furtherance of business
- b) The transaction is normal or otherwise routine for business
- c) The Income earned from such transaction is treated as business income in the Corporations Books of Account.
- d) The transactions are part of standard industry practice.

“Related Party”: Shall have the meaning as defined in Section 2(76) of the Companies Act 2013 and Accounting Standards 18. Details are mentioned in Annexure I.

“Related Party Transaction”: means a transfer of resources, services or obligations between the Corporation and a related party, regardless of whether a price is charged and a ‘transaction’ with a related party shall be construed to include a single transaction or a group of transactions in a contract.

“Material Related Party Transaction”: Shall mean

Transaction with a related party if the transaction(s) to be entered into individually, or taken together with previous transactions during a financial year, exceed stipulated materiality thresholds.

“Relative” is as defined under Section 2(77) of the Companies Act, 2013, i.e

- i. Members of HUF
- ii. Spouse
- iii. Father (includes Step-father)
- iv. Mother (includes Step-mother)
- v. Son (includes Step-son)
- vi. Son’s wife
- vii. Daughter
- viii. Daughter’s husband
- ix. Brother (includes the Step-brother)
- x. Sister (includes the Step-sister)

“Key Managerial Personnel” or “KMP”: Shall have the meaning as defined in Companies Act 2013 and IRDAI Corporate Governance for Insurers Guidelines 2016 and as amended, from time to time.

Annual Total Premium: means the sum total of First and First year Premium, Single Premium and Renewal Premium under individual business and Premiums earned through P&GS business.

Turnover: means the aggregate value of the realization of amount made from sale, supply or distribution of goods or on account of services rendered, or both, by the Corporation during a financial year. Accordingly, for the Corporation the turnover will be considered as the Total Income i.e Gross Premium Income + Other Income

4. Materiality Threshold

- a) Transaction with a related party if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceeds ten percent (10%) of the annual turnover of the entity as per the last audited financial statements of the entity.
- b) Transaction involving payments made to a related party with respect to brand usage or royalty shall be considered material if the transaction(s) to be entered into, individually or taken together with previous transactions during a financial year, exceed two percent (2%) of the annual turnover of the Corporation as per the last audited financial statements of the Corporation.

5. Manner of dealing with Related Party Transaction

5.1. Identification of Potential Related Party Transactions:

Each Director and Key Managerial Personnel is responsible for providing notice to the Board or the Audit Committee of any potential Related Party Transaction involving him/her or his/her relative, including any additional information about the transaction that the Board/Audit Committee may reasonably request. The Audit Committee will determine whether the transaction does, in fact, constitute the Related Party Transaction requiring compliance with this policy.

The notice of any such potential related party transaction should be given to the Board/Audit Committee well in advance so that the Audit Committee has adequate time to obtain and review information about the proposed transaction.

Examples of Related Party Transactions may include but not be limited to the following:

1. Rent/leasing
2. Investment income by way of dividend/interest
3. Redemption of Securities

4. Purchase
5. Sale
6. Reimbursement/Payment towards administrative expenditure
7. Assistance related to Information Technology / IT Solution Fee
8. Managerial Remuneration
9. Consultation work by Engineering Department
10. Training activities

Procedure for approval of Related Party Transaction

Approval of the Audit Committee

- a. All Related Party Transactions shall require prior approval of the Audit Committee.
- b. While assessing a proposal put up before the Audit Committee/Board for approval, the Audit Committee/Board may review the following documents or seek the following information from the Department in order to determine if the transaction is in the ordinary course of business and at arm's length or not.
 - i. Nature of the transaction i.e details of goods or property to be acquired/transferred or services to be rendered/availed (including transfer of resources)- including description of functions to be performed, risks to be assumed and assets to be employed under the proposed transaction;
 - ii. Key terms (such as price and other commercial terms) contemplated under the arrangement of the proposed transaction, including value and quantum;
 - iii. Key covenants (non-commercial) as per the draft of the proposed agreement/contract to be entered into for such transaction;
 - iv. Special terms covered/to be covered in separate letters or undertakings or any other special or sub arrangement forming part of a composite transaction;
 - v. Benchmarking information that may have a bearing on the arm's length basis analysis, such as:
 1. Market analysis, research report, industry trends, business strategies, financial forecasts etc;

2. Third party comparable, valuation reports, price publications including stock exchange and commodity market quotations;
 3. Management assessment of pricing terms and business justification for the proposed transaction;
 4. Comparative analysis, if any, of other such transactions, entered into, by the Corporation
- c.** However, the Audit Committee may provide omnibus approval for Related Party Transactions proposed to be entered by the Corporation. The following factors may be considered while specifying the criteria for making omnibus approval, namely:-
- i. Repetitiveness of the transactions (in past or in future);
 - ii. Justification for the need of omnibus approval
- d.** The Audit Committee shall satisfy itself regarding the need for such omnibus approval for transactions of repetitive nature and that such approval is in the interest of the Corporation;
- e.** The omnibus approval shall specify the following:
- Name (s) of the Related Party;
 - Name of the transaction;
 - Maximum amount of transaction that can be entered into;
 - The indicative base price/ current contracted price and formula, if any, for variation
 - Any other conditions as the Audit Committee may deem fit.
- f.** Where a Related Party Transaction cannot be foreseen and/or details as mentioned in Clause 5. 3.1 e, are not available, the Audit Committee may grant omnibus approval for such transactions of value not exceeding Rs. 1 crore per transaction.
- g.** The Audit Committee shall review, on a quarterly basis, the aggregated value and other details of related party transactions entered into by the Corporation, pursuant to the omnibus approval given.
- h.** Such omnibus approval shall be valid for a period not exceeding one financial year and shall require fresh approval after expiry of such financial year.
- i.** Omnibus approval shall not be made for transactions in respect of selling or disposing off any asset of the Corporation.

- j. Any member of the Audit Committee who has a potential interest in any Related Party transaction will recuse himself and abstain from discussion and voting on the approval/review of the Related Party transaction. If the member is a Key managerial Person, although can be present, shall provide all material information concerning the Related Party transaction to the Audit Committee
- k. Any other condition as the Audit Committee may deem fit.

Transactions of following nature will not be subject to the omnibus approval of the Audit Committee:

1. Transactions which are not at arm's length or in the ordinary course of business
2. Transactions which are not repetitive in nature.
3. Transactions which exceed the materiality thresholds as laid down in Clause 3.10 of the Policy.
4. Transactions in respect of selling or disposing off any asset of the Corporation.
5. Financial transactions such as Loan to related parties, Inter Corporate Deposits, Subscriptions to Bonds, Debentures or Preference Shares issued by related parties, Corporate guarantee given/received from related parties
6. Any other transaction that the Audit Committee may not deem fit for omnibus approval.

Approval of Board of Directors:

All transactions qualifying as Related Party Transactions shall be approved by the Board of the Corporation, with the exception of those transactions entered into by the Corporation in its ordinary course of business other than transactions which are not on an arm's length basis.

In addition to the above, the following kinds of transactions with related parties are also placed before the Board for approval:

- a) Transactions which may be in the ordinary course of business and at arm's length basis, but which, as per the policy determined by the Board from time to time (i.e. value threshold and/or other parameters) require Board approval in addition to Audit Committee approval. These shall include Insurance cover given by the Insurance Company to the group companies, price /Premium quoted by the Companies under File & Use (F&U) guidelines.

- b) Transactions in respect of which the Audit Committee are unable to determine whether or not they are in the ordinary course of business and/or arm's length basis and decides to refer the same to Board for approval.
- c) Transactions which are in the ordinary course of business and at arm's length basis, but which, according to Audit Committee requires Board approval.

Any member of the Board who has a potential interest in any Related Party Transaction will recuse himself and abstain from discussion and voting on the approval/review of the Related Party Transaction. If the member is a Key Managerial Person, although can be present, shall provide all material information concerning the Related Party Transaction to the Board.

6. Disclosures:

The Corporation shall disclose, in the Board's Report, transactions prescribed in Section 188 (1) of the Companies Act with related parties, which are not in ordinary course of business or not at arm's length basis along with the justification for entering into such transaction.

Disclosure of related parties and transactions with related parties as per AS 18 shall be made in the Notes to accounts forming part of Financials of the Corporation.

As per Section 3 A read with Section 9 of the IRDAI Corporate Governance Guidelines, 2016, the disclosures about payments made to Group entities of the Insurer, out of Policyholder's funds shall be made part of Related Party Disclosure and all such transactions may be grouped together under Related Party Transaction.

7. Related Party Transactions not approved under this Policy

In the event the Corporation becomes aware of a transaction with a related party that has not been approved in accordance with this Policy prior to its consummation, the matter shall be reviewed by the Audit Committee. The Audit Committee shall consider all the relevant facts and circumstances regarding the related party transaction, and shall evaluate all options available to the Corporation, including ratification, revision or termination of the related party transaction. The Audit Committee shall also examine the facts and circumstances pertaining to the failure of reporting such related party transaction to the Audit Committee under this Policy and failure of the internal control systems, and shall take any such action it deems appropriate.

In case the Audit Committee does not deem fit to ratify a related party transaction that has commenced without approval, the Audit Committee may direct additional actions including but not limited to discontinuation of the transaction or such other manner as it may deem appropriate. The Audit Committee has the authority to modify or waive any procedural requirement of the related party transaction to suit the provision of this policy.

8. Review of the Policy

The adequacy of this Policy on related transactions shall be reviewed and reassessed by the Audit Committee and appropriate recommendations made to the Board for modifications, on annual basis or as and when warranted by any Regulatory change or exceptional circumstances.

9. Limitation & Amendment

For any transaction with related parties, which are in the nature of transactions such as reinsurance arrangements or investment transactions or outsourcing to related parties, compliance to concerned latest amended regulations such as IRDAI (Re-insurance) Regulations, IRDAI (Investment) Regulations, IRDAI (Outsourcing) Regulations etc or guidelines/circulars issued by IRDAI in the matter shall be ensured as required under clause 3A1 of IRDAI Corporate Governance Guidelines, 2016.

In the event of any conflict between the provisions of this Policy and of the Act or any other statutory enactments, rules the provisions of such Act or Regulations or Statutory enactments or rules shall prevail over this Policy. Any subsequent amendment / modification in the Act and/or applicable laws in this regard shall automatically apply to this Policy.

ANNEXURE-I

I. Related Party:

1. As per Section 2(76) of the Companies Act 2013, "related party" with reference to a company, means-

- i. A Director or his relative;
- ii. A Key Management Personnel or his relative;
- iii. A firm, in which a Director, Manager or his relative is a partner;
- iv. A private company in which a Director or Manager or his relative is a Member or Director;
- v. A public company in which a Director or Manager is a Director and holds along with his relatives, more than two per cent of its paid-up share capital;
- vi. Any Body Corporate, whose Board of Directors, Managing Director or Manager is accustomed to act in accordance with the advice, directions or instructions of a Director or Manager;
- vii. Any person on whose advice, directions or instructions a Director or Manager is accustomed to act:

Provided that nothing in sub-clauses (vi) and (vii) shall apply to the advice, directions or instructions given in a professional capacity;

- viii. Any Body Corporate which is-

- (A) A holding, subsidiary or an associate of such company;
- (B) A subsidiary of a holding company to which it is also a subsidiary;
or
- (C) An investing company or the venture of the company;

Explanation- For the purpose of this clause, "the investing company or the venture of a company" means a body corporate whose investment in the company would result in the company becoming an associate company of the body corporate.

- ix. Such other person as may be prescribed.

A director other than an independent director or key managerial personnel of the holding company or his relative with reference to a company shall also be deemed to be a related party.

As per sub-section () of Section 2 of the Act, relative with reference to any person, means anyone who is related to another, if—

- (i) they are members of a Hindu Undivided Family;
- (ii) they are husband and wife; or
- (iii) one person is related to the other in such manner as may be prescribed under the Act.

II. As per the Accounting Standards (AS-18)

Parties are considered to be related if at any time during the reporting period has an ability to control* the other party or exercise significant influence over the other party in making financial and/or operating decisions.

*Control means:

1. Ownership, direct or indirect, of more than 50% of the voting power of an enterprise,
2. In case of company – control of the composition of the board of directors
3. In case of any other enterprise – control of the composition of the corresponding governing body
4. Substantial interest in voting power and the power to direct the financial and/or operating policies of the enterprise.

AS-18 also applies to the following related party relationships:

1. Holding companies, subsidiaries and fellow subsidiaries;
2. Associates and joint ventures of the reporting enterprise;
3. Investors in respect of which reporting enterprise is an associate or a joint venture;

4. Individuals owing direct or indirect interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual;
5. Key management personnel and his relatives; and
6. Enterprises over which any person, who is a key management personnel or has direct and indirect interest in voting power, can exercise significant influence. This includes enterprises owned by directors or major shareholders of the reporting enterprise and enterprises that have a member of key management in common with the reporting enterprise.

III As per the Indian Accounting Standards (Ind-AS)

Ind AS-24 defines the term 'related party' as follows:

A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

- (a) A person or a close member of that person's family is related to a reporting entity if that person:
 - (i) has control or joint control of the reporting entity;
 - (ii) has significant influence over the reporting entity;or
 - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- (b) An entity is related to a reporting entity if any of the following conditions applies:
 - (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.