

**LIFE INSURANCE CORPORATION OF INDIA  
CENTRAL OFFICE : INVESTMENT (M&A) DEPARTMENT**

**STEWARDSHIP CODE**

**Principle 1**

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

The Life Insurance Corporation of India (hereinafter referred to as the Corporation), being a public financial institution and the largest life insurer of the country, shall bear in mind, in the investment of funds, the primary obligation to its policyholders, whose money it holds in trust, without losing sight of the interest of the community as a whole; the funds to be deployed to the best advantage of the investors as well as the community as a whole, keeping in view national priorities and obligations of attractive return.

Since a significant part of the policyholders' money is invested by the Corporation in companies, it is imperative that the Corporation engages in oversight of these investee companies. The companies selected for such oversight shall be on the basis of threshold of exposure determined on the basis of internal criteria. The oversight provided in such companies shall be through non-executive representatives on the boards of such companies wherever it is possible to make nominations. In doing so, the Corporation would not be attempting to manage the affairs of the investee companies. The sole aim of the Corporation would be to bring diversity to the boards of these companies and also the experience of successfully managing the largest life insurer of the country which would enrich the company and assist it in being more profitable and meaningful, thereby contributing towards enhancing the wealth of the policyholders.

The Corporation is of the view that the investee companies should be at full liberty to deal with matters of strategy, performance, risk, capital structure and corporate governance, including culture and remuneration as long as environmental, social and corporate governance principles are embedded in the company's decisions and it is not prejudicial to the interest of the Corporation. In case of divergence from these principles, the Corporation shall consider one or more of the following options viz. engaging with the company, collaborating with other institutional shareholders, escalating the issue to regulatory and statutory authorities or other appropriate and approved action which is warranted by the circumstances.

The Corporation may engage the services of external service providers in the course of discharging its stewardship responsibilities. The role of the service providers shall not be beyond providing company research reports, data and tools for reporting and ensuring regulatory compliance. The services sought from external service providers would be utilized with a view to enable the Corporation to take informed decisions which would benefit all the stakeholders.

## **Principle 2**

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

The Corporation shall strive to reduce, if not eliminate, conflict of interest among various classes of stakeholders by identifying the primary issues in respect of each class and taking appropriate decisions incorporating fairness and equity into them which would lead to harmony within and also in relation to the external environment. The most important classes of stakeholders would be the policyholders, investee companies, minority equity holders, the Reserve Bank of India, the Ministry of Corporate Affairs and other institutional investors and lenders.

The investee companies play an important role in the matter of enhancement of policyholders' wealth since huge funds contributed by the policyholders are invested in these companies. The Corporation is of the view that the investee companies should be at full liberty to manage their affairs as long as environmental, social and governance principles are embedded in the company's decisions and it is not prejudicial to the interest of the Corporation. In case of divergence of interest of the company and the Corporation or any of its stakeholders, the Corporation shall consider appropriate and approved action as warranted under the circumstances with a view to resolve the conflict of interest.

## **Principle 3**

*Insurers should monitor their investee companies.*

As has already been covered under **Principle 1**, the Corporation shall engage in oversight of its investee companies. The companies selected for such oversight shall be on the basis of threshold of exposure determined on the basis of internal criteria. The oversight provided in such companies shall be through non-executive representatives on the boards of such companies wherever it is possible to make nominations by approaching the investee companies. In doing so, the Corporation would not be attempting to manage the affairs of the investee companies. The sole aim of the Corporation would be to bring diversity to the boards of these companies and also the experience of successfully managing the largest life insurer of the country which would enrich the company and assist it in being more profitable and meaningful, thereby contributing towards enhancing the wealth of the stakeholders.

The selected investee companies shall be regularly monitored through research reports, media reports, annual reports, presentations sought from the companies on specific issues and engagement with the executives of the companies. The Corporation shall intervene in the matter of succession planning only if it involves violation of the principles of corporate governance. The intervention in such an eventuality shall be confined to collaborating with other institutional shareholders and appropriate and approved voting on proposed resolutions.

The Corporation shall neither wish to be made an insider in the investee companies nor wish to be given price sensitive or business sensitive information which might have an impact on dealing with the shares of the companies.

#### **Principle 4**

*Insurers should have a clear policy on intervention in their investee companies*

As has already been covered under **Principle 3**, the Corporation shall not wish to be made an insider in the investee companies and hence will not be actively involved with the companies. The oversight by the Corporation on the investee companies would be mainly for ensuring that the investment made by it in the companies on behalf of the policyholders is enhanced and protected, thereby increasing their wealth and in matters where conflict of interest needs to be resolved.

The intervention by the Corporation would be in the form of engaging with the executives of the company, seeking presentations from the company, taking voting decisions and in extreme cases, escalating issues to regulatory and statutory authorities.

#### **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.*

Under normal circumstances, the Corporation shall engage with the investee companies independent of other institutional investors. As long as the investee companies follow sound prudential practices, ensure equitable treatment to all shareholders, ensure business continuity and succession planning and bring transparency in their practices, there may not be need for collaboration with other institutional investors.

However, larger engagement with investee companies may be warranted in extraordinary circumstances like mergers and acquisitions, demergers, sale of assets / slump sale, disputes regarding succession planning, spiraling debt burden and third party or promoter related issues not in the interest of the company. In such an eventuality, the Corporation may collaborate with institutional investors to take appropriate action in order to safeguard its investment and preserve the interest of the ultimate investors i.e. the policyholders. The collaboration with institutional investors might result in action like voting based on a broad understanding, engaging with key management personnel of the investee companies and escalating issues to regulatory and statutory authorities, if warranted.

#### **Principle 6**

*Insurers should have a clear policy on voting and disclosure of voting activity.*

The Corporation shall exercise its voting rights in investee companies on a case to case basis after careful scrutiny of the resolutions. The resolutions shall be evaluated, inter alia, on the following parameters viz. whether the resolutions will impact the Corporation adversely; whether the resolutions will impact all shareholders uniformly; whether the resolutions take care of prudential norms; whether the resolutions are likely to impact the business continuity of the company; whether the resolutions are

likely to give undue and unfair advantage to the promoters or related parties; whether the resolutions violate the in vogue/sound principles of governance.

The resolutions, which have a high frequency of occurrence, and the parameters on which they are evaluated i.e. which bring out the rationale for decision making, have been enumerated below in order to illustrate the policy.

- 1. Resolution:** Adoption of Accounts  
**Parameters:** Auditor Qualification; Debt Burden; Change in Accounting Policies; Opaque Related Party Transactions
- 2. Resolution:** Auditor Appointment  
**Parameters:** Auditor Tenure; Track record of auditor; Auditor Fees; Same auditor in group companies
- 3. Resolution:** Dividend Declaration  
**Parameters:** Profitability of the Company; Reserves and Surplus of the Company; Default in Debt Servicing; Contingent Liabilities
- 4. Resolution:** Appointment of Directors  
**Parameters:** Qualifications and Experience; Relationship with Promoters
- 5. Resolution:** Remuneration of Directors  
**Parameters:** Statutory Provisions; Profitability of Company
- 6. Resolution:** Alteration to Charter Documents (Memorandum of Association & Articles of Association)  
**Parameters:** Case to case basis (Name, Place, Objects, Capital)
- 7. Resolution:** Issuance of Equity Shares  
**Parameters:** Promoter Holding; Corporation's Holding; Dilution in Corporation's Voting Power
- 8. Resolution:** Issuance of Stock Options  
**Parameters:** Dilution; Exercise Price
- 9. Resolution:** Issuance of Non-Convertible Securities  
**Parameters:** Leverage; Debt Burden
- 10. Resolution:** Related Party Transactions  
**Parameters:** Terms of Arrangement
- 11. Resolution:** Sale of Assets

**Parameters:** Rationale for Sale; Valuation of Assets

**12. Resolution:** Increase in Borrowing Limit

**Parameters:** Rationale; Leverage Profile; Debt Burden and Debt Servicing Issues

**13. Resolution:** Scheme of Arrangement

**Parameters:** Case to case basis (Rationale, Valuation, Shareholding Pattern, Dilution of Stake, Impact on Minority Shareholders, etc.)

The aforesaid resolutions and parameters are indicative and not exhaustive and have been mentioned only for the sake of illustration.

The Corporation does not make use of proxy voting or voting advisory services at present. If the same are made use of in future, the Corporation shall update this code accordingly. The Corporation does not have a policy of stock lending for the purpose of granting voting powers to the borrower of such stocks.

**Principle 7**

*Insurers should report periodically on their stewardship activities.*

The Corporation shall report on its stewardship activities annually in **Annexure A** and **Annexure B**.

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