

# **Edelweiss General Insurance Company Limited**

## **STEWARDSHIP CODE**

## Version Control

<u>VERSION</u>	<u>REVIEWED BY BOARD OF DIRECTORS ON</u>
<u>1.0</u>	<u>10 MAY 2018 / 2019</u>
	<u>10 MAY 2019</u>
<u>2.0</u>	<u>24 JUNE 2020</u>

## **STEWARDSHIP CODE**

### **Objective**

Edelweiss General Insurance Company Limited (hereinafter referred to as **'the Insurer'/'the Company'**) offers multiple general insurance products like motor, health, fire, home and personal accident for retail and commercial business lines. The premium collected on insurance premium forms part of the investment portfolio and are invested to generate returns. The investment function caters for investments to be made by the Company and as a part its processes, monitors the investee companies on issues such as strategies, performance, risk, capital structure, corporate governance and such other related aspects. This enables the Company to protect its investments placed with such investee companies and thereby protecting the interest of the policyholders. Hence, the manner of exercising voting rights in the investee companies brings a fiduciary responsibility on the Company.

This responsibility includes monitoring and engaging with Investee Companies on matters such as strategy, performance, risk, capital structure, corporate governance including culture and remuneration, exercising voting rights towards the securities in which the Funds have invested, either at the general meetings of the Investee Companies or through postal ballots, in the best interest of the policyholders.

The Insurance Regulatory and Development Authority of India (**'the Authority' / 'IRDAI'**) vide its circular dated 20 March 2017 issued the Guidelines on Stewardship Code for Insurers in India setting out the Stewardship Principles for adoption by insurance companies which were adopted by the Company at its Board meeting held in May 2018. IRDAI has issued revised Guidelines on Stewardship Code for Insurers in India vide its circular ref. IRDAI/F&A/GDL/CPM/045/02/2020 dated 7 February 2020 and the Board of Directors of the Insurer has adopted the revised Stewardship Code at its meeting held on 24 June 2020.

The Stewardship Code (**'Code'**) of the Company aims to stipulate matters concerning the efforts of the Company to fulfil its Stewardship Responsibilities in line with the Stewardship Principles, while clarifying its commitment to act appropriately as a responsible institutional investor. The Company believes that effective stewardship benefits investee companies, insurers, insurer, asset managers, investors and enhances the quality of capital markets.

The Code contains the Principles that form the basis of all Stewardship Responsibilities. The Insurer believes that these Principles are essential to ensure the long-term performance of assets managed by the Insurer. The Insurer will execute its Stewardship Responsibilities with the same level of care and skill as it manages the Funds. In general, the Insurer does not have the intention to participate directly or indirectly in the management of the Investee Companies but it will use its influence as the representative of the shareholders amongst others by exercising its voting rights in accordance with the best interests of its policyholders.

The Principles state that the Insurer should:

1. Publicly disclose its Code on how it will discharge their Stewardship Responsibilities.
2. Have a robust policy on managing conflicts of interest in relation to stewardship, and this should be publicly disclosed.
3. Monitor its investee companies.
4. Have clear guidelines on intervention in its Investee companies.

5. Collaborate with other institutional investors, where required, to preserve the interests of the policyholders.
6. Have a clear policy on voting and disclosure of voting activity; and
7. Report periodically on its Stewardship and Voting activities.

**The following Principles are set out under the Insurer's Stewardship Code:**

**Principle 1 - Stewardship Responsibilities**

Active monitoring of Investee Companies is an integral part of the Investing approach and strategy of the Insurer. The Investment Team monitors the Investee Companies. The Insurer manages various asset classes and has various investment capabilities. As sustainability is an important part of the investment philosophy of the Insurer, environmental, social and corporate governance factors are to be taken into account throughout these capabilities and asset classes. On a periodic basis, portfolio managers select investments for which engagement may improve the investment case or can mitigate investment risk based related to governance and/or sustainability issues.

The Insurer shall closely monitor the Investee Companies in which it actively invests policyholders' funds. This includes analysing public disclosures and taking relevant opportunities to meet with management, other executive staff and the non-executive directors as appropriate. This helps to keep abreast of the Investee Company's performance, developments that drive shareholder value and to determine when it is appropriate to enter in a dialogue with the management team or its board of directors. As part of this monitoring process, the Insurer aims to focus on Stewardship by:

- a. Satisfying that the Investee Company's management and governance structures are effective.
- b. Assessing the Investee Company's strategy, performance, governance or remuneration and the quality of reporting.

The Insurer's Fund Managers use both in-house and third party research to assist in their assessment of an Investee Company and as a source of different perspectives as well as staying close to industry developments and the approach of competitors, trying always to ensure that they have as broad a view as possible.

General matters that come up for voting, either at the general meetings of the Investee Company/(ies) or through postal ballots include the following:

- a. Corporate Governance matters including changes in the state of incorporation, merger and other corporate restructuring and anti-takeover provisions
- b. Changes to capital structure, including increase and decrease of capital and preferred stock issuances
- c. Appointment, remuneration, retirement and removal of Directors
- d. Stock option plans and other management compensation issues
- e. Changes to the Memorandum and Articles of Association of the Investee Company
- f. Social and Corporate Responsibility issues
- g. Appointment and Remuneration of Statutory Auditors
- h. Transactions with Related Party/(is)
- i. Other Corporate Governance matters; and
- j. Other issues affecting the interest of the Shareholders.

The Insurer shall also participate in activities like managing conflicts of interest, training of personnel, intervention in investee companies and collaboration with other institutional investors.

In the event the Insurer uses the services of institutional advisors, the ultimate Stewardship Responsibilities shall be discharged by the Insurer.

### **Principle 2 - Conflicts of interest**

The Insurer will put the utmost value on the interest of its policyholders. The Insurer is an affiliate of a large, diverse financial services organization with many companies which may lead to situations creating conflicts of interest. Conflicts of interest may arise in certain situations which can have significant exposure, such as:

- a. The Investee Company is an associate of the Insurer.
- b. The Investee Company is an institutional client of the Insurer.
- c. The Insurer is a lender to the Investee Company.
- d. The Investee Company is a partner or holds an interest, in the overall business or is a distributor for the Insurer.
- e. A nominee of the Insurer has been appointed as a director or a key managerial person of the Investee Company.
- f. The Insurer and the Investee Company are part of same group (fellow subsidiary).
- g. A director or a key managerial person of the Insurer has a personal interest in the Investee Company.

The Board and Audit Committee will identify all possible scenarios of likely Conflicts of interest and how they will be addressed and how the matters will be handled when the interest of clients or beneficiaries diverge from each other.

**Procedure for handling Conflicts of Interest:** To manage/avoid conflicts of interest, the Insurer could undertake the following steps:

- a. Blanket bans on investments
- b. Reference to Audit Committee for their consideration
- c. Segregation of Voting function and Client Relations function
- d. Client relations/sales functions should not be involved in voting decision making function.
- e. Mandated recusal from decision making by persons having actual/potential conflicts of interest
- f. Recording of rationale behind a new investment decision/each shareholder resolution. The Insurer may consider abstaining from voting when the Insurer and the Investee Company are part of the same group, unless the Insurer records rationale for voting on such resolutions.
- g. Maintenance of Minutes on decision taken to address Conflicts of interest
- h. Insurer's investment team to comply with the Code for Prevention of Insider Trading of the Insurer.

In cases where investments are in group companies of the Insurer or where the Investee Companies has substantial investments in the Insurer's Funds, the Insurer shall specifically review all voting proposals, routine as well as non-routine, and take decisions with respect to voting on such proposals in the best interest of the policyholders. The Insurer may also decide to

abstain from such voting, if it deems fit to do so, in the best interest of the Policyholders or if there is a conflict of interest.

The Insurer will make its best efforts to avoid conflicts and ensure that any conflicts of interest are resolved in the best interests of its Policyholders. The Insurer will vote in the exclusive interest of the policyholders, without taking into consideration the interest of the businesses of its promoter group companies. The strict separation of the Insurers' investment management activities from other activities within its promoter group companies prevents access of the Insurer to insider and unpublished price sensitive information for which use and/or disclosure of such information could generate conflicts of interest.

The Insurer supports resolutions that promote the functioning of the Investee Company's Board in the best interests of their shareholders, resolutions that change the state of incorporation, merger etc. which are in the shareholders' value. Issues, including those business issues specific to the Investee Company or those raised by shareholders of the Investee Company would be addressed on a case-by-case basis with a focus on the potential impact of the vote on shareholder value. The Insurer reserves the right to vote against any resolution that goes against the interest of its Policyholders and Shareholders. The Insurer in such other matters may decide to abstain from voting if it has insufficient information or there is conflict of interest or the Insurer does not have a clear stance on the proposal.

The Investment Committee of the Board of Directors shall periodically monitor all investments and check if there are/were any potential conflicts not reported and recommend corrective measures. Where there is potential conflict of interest, it would be referred to the Audit Committee of the Board, which will then recommend the proper course of action.

### **Principle 3 – Monitoring of Investee Companies**

The Insurer should endeavor to engage with the boards and management of investee companies with the objective of maximising long-term shareholder value and monitors this as part of their ongoing oversight of the Investee Company's investment activity. Due to the constantly evolving nature of Investee Company's practices and other circumstances, it is important to note that it may not be possible to identify or address pre-emptively all material or potential risks, although best endeavors will be exercised. The Insurer's investment team shall monitor risk across their assigned sectors leveraging data and research from various sources, as well as a database that tracks data on year over year engagements. These tools enable the Insurer to identify outliers pertaining to its key areas of focus including remuneration, independent and effective boards, environmental and operational risks and shareholder rights.

#### **Guiding Principles on Monitoring of Investee Companies:**

- a. Level of monitoring: Insurer shall ensure a higher level of monitoring where the Insurer's exposure is high as a % of Insurer's AUM vis-à-vis monitoring companies with insignificant % of AUM.
- b. Areas of monitoring Investee companies prescribed shall include inter alia the following:
  - i. Company strategy and performance (operational and financial).
  - ii. Industry level monitoring and possible impact on the investee companies.
  - iii. Quality of Leadership, Company Management and Board.

- iv. Corporate Governance including remuneration, structure of the Board (including Board diversity and independent directors) and related party transactions
- v. Shareholder rights and their grievances
- vi. Corporate Governance and Related Party Transactions
- vii. Environmental, Social and Governance risks

The Insurer may participate through nominations on the Board of the Investee Companies to ensure active involvement and shall indicate in its Stewardship Statement, its willingness to do so and the mechanism by which this could be done.

Although not common, through its engagement with portfolio companies, the Insurer's personnel may come across confidential information about an Investee Company that is not otherwise generally available to the public. The Insurer's personnel are subject to the 'Code for Prevention of Insider Trading in Securities of Edelweiss Financial Services Limited and Other Securities' which are designed to prevent the misuse of such confidential information. Failure by the Insurer's personnel to comply with the abovementioned Code for Prevention of Insider Trading may result in sanctions that may include, without limitation, ban on personal trading, disgorgement of trading profits and personnel action, including termination of employment, where appropriate.

#### **Principle 4 - Intervention in Investee Companies**

As set out above, the level of contact the Fund Managers have with the Investee Companies' management varies, depending on a number of factors, including: the size of the investment in the Investee Company, the size of the Investee Company, its location and its business activities. Fund Managers seek to understand the strategy, governance and overall operational and financial performance of the Investee Companies and their outlook for the future. The Insurer engages with Investee Companies through both formal and informal channels including private meetings and attendance at company meetings as well as telephone and electronic methods.

Occasionally, however, Fund Managers may conclude that a series of events or decisions on the part of an Investee Company's management or board, including matters on corporate governance, stewardship, environmental, social and governance ('ESG') have raised concerns significant enough to reduce the attractiveness of that investment. If concerns arise regarding an Investee Company's approach or decisions, initial discussions would, if appropriate, take place on a confidential basis and where possible as part of the fund manager's ongoing dialogue. The Insurer seeks to intervene as soon as practicable to avoid problems arising or becoming entrenched.

The concerns that the Fund Managers may raise from time to time are across a range of subjects that are integral to the long-term value of Investee Companies, include but are not limited to:

- a. strategy
- b. issues relating to their board (including leadership, effectiveness, composition, succession planning and re-election)
- c. (poor) financial performance of the Investee Company
- d. corporate governance issues and practices
- e. remuneration
- f. capital structure (pre-emption rights)
- g. share issuance and buybacks and general capital raisings)
- h. merger and acquisition activities

- i. accounting and audit
- j. operating and financial performance
- k. litigations
- l. risk management
- m. Environmental, Social and Governance (ESG) risks
- n. broad governance issues.

The Insurer's engagement is integral to its investment processes as it firmly believes that this is an important way to preserve value for policyholders.

Where Fund Managers' concerns have not been managed through the usual channels of communication, then the Fund Manager may seek to escalate the concerns.

Mechanisms for intervention in Investee Companies could be by way of the following:

- a. Meeting the management or for constructive resolution of the issue and in case of escalation thereof, members of the Board of the Investee Company and providing comments in an increasingly formal way.
- b. Collaboration with other investors and voting against decisions
- c. Interaction with other insurance companies through Insurance Council on industry-level issues

However, if a board of the Investee Company does not respond constructively and the Insurer has concerns about the Investee Company's strategy, performance, governance, remuneration or approach to risks, then the Insurer would consider how most appropriately to escalate its action, for example by:

- a. Expressing concerns through the Investee Company's advisers or to the Investee Company; or
- b. Indicating to the Investee Company's management that it is the Insurer's intention to vote against management; or
- c. Voting against management in a general meeting or by proxy.

In exceptional circumstances, the Insurer might be prepared to consider escalating matters still further, for example by:

- a. Making a public statement in advance of general meetings
- b. Submitting resolutions and speaking at general meetings
- c. Requisitioning, in some cases a proposal to change board membership.

The Fund Manager's decision to engage is a result of various factors. Those Investee Companies in whom the Insurer holds a significant investment and in which the Fund Manager intends to maintain a holding for the long-term are considered high priority engagements, together with those where the Insurer believes there is a reasonable probability that the Investee Company's management team will enter into constructive dialogue with the Insurer.

The Insurer will engage with other shareholders, either at its own or their instigation, to discuss any matters regarding an Investee Company. This may involve contact with the Investee Company and/or its advisers with the aim of obtaining information, influencing decisions or resolving issues.

**Principle 5 - Collaboration with other institutional investors, where required, to preserve the interests of the policyholders (ultimate investors)**

In circumstances where the Insurer's approach to engaging the management of Investee Company is not achieving the required level of discussion or success, or when shareholder value is at risk to a sufficient degree, the Insurer has no objection, in principle, to collective action with other investors. The Insurer may consult with other investors or with other formal or informal groups as appropriate. The decision to collaborate on Investee Company specific matters will be judged on a case by case basis by the Fund Manager with input from the Chief Investment Officer.

Examples of the sort of issues on which the Insurer might consider engaging collectively where other escalation routes have failed are given below:

- a. Concerns over decisions relating to M&A activity or capital raising
- b. Issues with Investee Company leadership or board structure
- c. Concerns over strategy
- d. Concerns over capital structure
- e. Concerns over operating performance; or
- f. Where there is difficulty accessing information about, or gaining direct access to, Investee Companies.

This does not represent an exhaustive list but a broad framework.

**Principle 6 - Voting and Disclosure of Voting Activity**

Philosophy of Voting Policy

'*Voting Right*' means the right of a shareholder to vote on matters of corporate policy and other resolutions in the Investee Company. The Insurer will undertake appropriate exercise of voting rights in accordance with its in-house rules. The exercise of voting rights will require regular monitoring of financial performance, corporate governance matters, industry performance and subsequent consideration of the potential impact of a vote on the value of the securities of the Investee Company. In order to discharge its obligations under this Code, the Insurer will access and utilise research on management performance and corporate governance issues of the Investee Company(ies), drawn either from its in-house Fund Management team or from independent consultant/firm amongst others.

The Insurer is entitled to exercise the voting rights attached to the shares of the Investee Company. The shareholders do not necessarily need to be physically present at the site of the Investee Company's annual general meeting/extra-ordinary general meeting to exercise their right to vote. It is common for shareholders to voice their vote through an e-voting system provided by entities such as custodians (NSDL, CSDL, Karvy) or by appointing a proxy.

The Insurer is permitted to engage in securities lending activity. Securities lent may be recalled for voting purposes.

In connection herewith, the Insurer will exercise adequate safeguards to address any conflicts of interest with regard to any individual investments made by the schemes of the Fund. This may imply that the Insurer may decide to refrain from exercising its voting rights if considered appropriate.

The Insurer shall mandatorily undertake active participation and voting on resolutions/proposals of the Investee Companies under the following circumstances:

- a. Where the Insurer's total investment in an Investee Company is more than 3% of the Insurer's AUM (upto Rs. 2,50,000 crore): The Insurer shall vote on all resolutions.
- b. Where the Insurer's total investment in an Investee Company is more than 5% of the Insurer's AUM (above Rs 2,50,000 crore): The Insurer shall endeavor to engage with the Investee Company by attending meeting, concalls, etc.

The decision regarding voting for a specific resolution i.e. whether the Insurer will vote for/against or abstain, will be taken by the Equity Fund Manager/s, in consultation with the CIO. The Fund Manager may also seek the analysis and recommendations of a research firm or other competent authority or individual to aid such decision(s).

Voting decisions can be based on professional advice for arriving at voting decisions and research reports like market survey data, industry-wide analysis, business valuation, etc. from external agencies

Voting Rights Procedure:

The decision of the Investment Team on voting for resolutions to be passed at all the general meeting or through postal ballot of the Investee Company, shall be executed by the Insurer by casting votes through the e-voting facility provided by the Custodians.

However, in case the e-voting facility is not offered by any Investee Company or the Insurer is not in a position to cast its vote through e-voting, any of the following personnel/representatives of the Insurer or an externally authorised agency would be delegated the responsibility for exercising the physical voting rights by the Managing Director or Chief Executive Officer (CEO) or Chief Investment Officer (CIO), if any:

- a. Fund Manager – Equities
- b. Fund Managers
- c. Head – Compliance & Legal
- d. Company Secretary
- e. Representative of an externally authorised agency such as the Custodian.

The Audit Committee of the Board of the Insurer shall ensure monitoring of the voting decisions of the Insurer. A report on votes exercised by the Insurer and the rationale recorded for each voting decision will be placed before the Audit Committee of the Board of Directors of the Insurer from time to time to review that the Insurer has voted on important decisions that may affect the interest of investors and the rationale recorded for vote decision is prudent and adequate.

Although the Insurer will generally vote in accordance with the Voting Rights Procedure, there may be circumstances where the Insurer may believe it is in its best interests to vote differently than in the manner contemplated herein. Hence, the Insurer may deviate from the Voting Rights Procedure where it determines that the deviation is necessary to protect the interests of the Policyholders. The ultimate decision regarding the manner in which the Insurers' representatives / proxies will vote rests with the Insurer.

The Insurer shall make quarterly disclosure (as per the timelines prescribed for quarterly public disclosures on website) regarding its voting activity in the Investee Company/(ies) in which it has

actively participated and voted on resolutions/proposals. This Disclosure shall form part of the 'Public Disclosures' on the website of the Insurer in the prescribed format.

## **Principle 7 – Reporting, Disclosures and Review**

### Disclosures

The Insurer will:

- a. host the Stewardship Code on its website and ensure that any modification to the Code is disclosed on the website.
- b. provide a periodic report of the discharge of its Stewardship Responsibilities, as a part of the 'Public Disclosures' on its website, for the benefit of its ultimate beneficiaries i.e. policyholders.
- c. publish on a quarterly basis on its website of its participation and voting alongwith the 'Public Disclosures' in the prescribed format.

### Reporting

The Board shall ensure that there is effective oversight on the Insurer's Stewardship activities. The Audit Committee of the Board shall exercise oversight of the same.

### Compliance

The Insurer shall submit an Annual Certificate of Compliance with regard to the status of Stewardship Code principles, approved by the Board, to the Authority, duly certified by the Chief Executive Officer and the Compliance Officer on or before 30<sup>th</sup> June every year.

### Review of the Code

The Audit Committee and the Board will review this Code annually or earlier if required.

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