

Money & Banking

IRDAI bats for 'reasonable' remuneration to insurance CEOs, to limit variable pay

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Releases draft guidelines

The Insurance Regulatory and Development Authority of India (IRDAI) has batted for 'reasonable' remuneration to insurance CEOs, to limit variable pay.

This has been proposed in draft the guidelines on remuneration of managing directors, chief executive officers and other directors on the board.

The new guidelines are needed “In order to ensure sound remuneration of non-executive directors and managing directors, chief executive officers, whole directors of the insurance companies, and avoid situations resulting from excessive risk taking behavior due to inappropriate compensation structures or incentive plans,” the regulator said while releasing the draft guidelines.

As per the draft guidelines, the remuneration structure should be divided between fixed pay, perquisites and variable pay.

“The fixed pay should be reasonable and all the fixed items, including perquisites, should be treated as part of fixed pay,” it said.

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On the variable pay, the draft guidelines said it should be at least 50 per cent of the remuneration subject to a maximum 300 per cent of the fixed pay. Where variable pay is up to 200 per cent of the fixed pay, a minimum of 50 per cent of the variable pay should be via non-cash instruments. The same limit would be 70 per cent in case the variable pay is above 200 per cent of the fixed pay.

A minimum of 50 per cent of the variable pay must be deferred on ‘no faster than pro-rata’ basis over a period of three years. No deferment required if the variable pay does not exceed ₹15 lakh.

The variable pay should be fixed on a formula with identified weightage that has been prescribed with 70 per cent attributing to quantitative parameters and 30 per cent to qualitative parameters.

“The insurer is required to specify the performance parameters on the basis of which the variable pay will be evaluated,” the draft said.

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