

---

**Stewardship Code for**

**Max Life Insurance Co. Ltd.**

July 2017

---

---

---

## Contents

1.	Introduction .....	1
2.	Stewardship Code .....	1
3.	Max Life Insurance's Approach to the Stewardship Principles.....	2

---

## 1. Introduction

A Stewardship Code has three principal elements:

- i. Engagement with investee companies;
- ii. Voting on shareholder resolutions; and
- iii. Disclosures on voting and engagement.

IRDA, vide its Circular dated 20th March, 2017 (“Stewardship Guidelines” or “Guidelines”), prescribed that Indian insurance companies need to adopt a stewardship code for engagement with their investee companies.

The Circular also describes seven principles to be covered by the Stewardship Code for insurers as follows:

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

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

**Principle 3:** Insurers should monitor their investee companies.

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

**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.

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

**Principle 7:** Insurers should report periodically on their stewardship activities.

This paper describes Max Life Insurance (“MLI”)’s approach to the Stewardship Responsibilities as set out under each principle and how our policy and procedures meet the requirements of the Stewardship Code.

This Code is also available on our Company’s website ([www.maxlifeinsurance.com](http://www.maxlifeinsurance.com)).

## 2. Stewardship Code

In accordance with the Stewardship Guidelines, this Stewardship Code (“Code”) summarises MLI’s policy and procedures adopted for monitoring and engagement with its investee companies and for voting.

The key purpose of implementing this Code is to further enhance and protect the long-term benefits of MLI’s policyholders by engaging with its investee companies on issues such as strategy, performance, corporate governance, environmental and social issues that may materially affect the future sustainability of companies and shareholder value.

MLI’s philosophy is to ensure that it does not expose its policyholders to undue risks. MLI’s fiduciary responsibility towards its policyholders guides all its investments. MLI appraises each investment with integrity and focuses on the investment’s long-term benefits. Stewardship activities are aimed at monitoring our investments and guiding the investee companies with a view to protect our rights as shareholders and to improve corporate governance in investee companies and thus to enhance the long-term value for our policyholders.

It is clarified that compliance with these principles does not constitute an invitation to manage the affairs of a company or preclude a decision to buy or sell securities of any of the investee companies when this is considered in the best interest of clients or beneficiaries.

---

On annual basis, the Code will be reviewed based on emerging practices and regulatory developments. The revised Code will be tabled at the Investment Committee for review and for its recommendation to the Board for approval.

On a quarterly basis, the Investment Committee will provide an oversight on the insurer's stewardship activities and monitor compliance to this Code.

### **3. Max Life Insurance's Approach to the Stewardship Principles**

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

##### Guidance provided by the Guidelines

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 Stewardship policy should identify and define the stewardship responsibilities that the insurer wishes to undertake and how it intends to fulfil the same to enhance the wealth of its clients. The policy should be approved by the Board of the insurer and should bring out how the insurer applies stewardship with the aim of enhancing and protecting the value for the ultimate beneficiary or client.

While the Boards of an insurer could decide to engage in all cases, it may also decide to selectively intervene based on its extent or level of investment. In such case, the policy should clearly identify the threshold (level of investment or any other criteria as may be determined by the Board) for intervention.

The policy should clearly state whether the insurer intends to use the services of external service providers such as institutional advisors and should clearly provide that the ultimate stewardship responsibilities shall be discharged by the insurer.

##### Max Life's approach to the Stewardship Responsibilities

- All investments by MLI are made after adequate research and analysis, including the preparation of an investment note supporting the investment decisions prior to any new investment. The note describes the investee's business and governance standards and analysis of the financials and valuations (including qualitative and quantitative data). Investments are monitored on an ongoing basis by face-to-face meetings, site visits, conference calls. etc.
- In line with our investment philosophy, we look to invest in fundamentally good quality businesses at attractive valuations and we are active managers of our portfolios.
- Although stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration, MLI will selectively pursue stewardship activities since all matters may not always be relevant to all investee companies, depending on the evaluation of individual situation.
- Since stewardship activities have the most relevance for equity investments, our efforts as shareholders are likely to be concentrated on this asset class. However, when required, MLI will also apply these principles to other asset classes like fixed income investments.
- As a general policy, MLI will not seek to nominate a representative on the Board of an investee company. However, MLI may decide to do so in case of certain situations (e.g. strategic investments. etc.).
- MLI may engage with external service providers for providing analysis, proxy advisory services, etc., as inputs for decision-making. However, the final decision and responsibility for stewardship activities rest with MLI.

---

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

*Guidance provided by the Guidelines*

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 identify scenarios of likely conflict of interest as envisaged by the Board and should also address how matters are handled when the interests of clients or beneficiaries diverge from each other.

*Max Life's approach to the Stewardship Responsibilities*

MLI has various stakeholders, multiple funds and multiple sets of policyholders with differing expectations. This may lead to instances of potential conflicts of interest amongst different classes of products, different policyholder sub-sets, business relationships, etc. In resolving such conflicts, the long-term interest of the policyholders will be kept in mind.

.As a rule, in all cases of conflicts of interests the voting decisions of MLI will be based on the best interests of the policyholders.

Situations where conflicts of interest could arise in the context of stewardship include:

- Conflicts involving policyholders of different funds – For a given corporate action, MLI may vote separately for each investee company or take a holistic view of the transaction in the overall interest of policyholders.
- Conflicts involving holdings in different asset classes - MLI may vote separately for each asset class or take a holistic view if the holdings are in the same fund.
- Potential conflicts involving business relationships of MLI - a Conflict Resolution Team comprising the Chief Investment Officer, Chief Financial Officer, Appointed Actuary and the head of the function to which the potential conflict pertains, shall decide on how to manage the conflict of interest in the interest of policyholders.
- Promoter versus policyholder relationships – decision to vote or abstain will be made keeping in mind the interest of the policyholders and will be subject to a decision by the Conflict Resolution Team.

**Principle 3: Insurers should monitor their investee companies.**

*Guidance provided by the Guidelines*

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 have more participation through nominations on the Board for active involvement with the investee companies. An insurer who may be willing to have nominations on the Board of an investee company should indicate in its stewardship statement the willingness to do so, and the mechanism by which this could be done.

*Max Life's approach to the Stewardship Responsibilities*

As a responsible investor, post-investment, MLI monitors the investee companies on a regular basis with at least one annual interaction. MLI monitors the financial performance as well the governance practices with a view to safeguard its investments and for the promotion of good practices in these areas.

When monitoring companies, MLI seeks to:

- 
- keep abreast of the company's performance, including the future direction and strategy of the investee company, growth opportunities, cost structures versus competition, return ratios, capital structure, key risks, and compare financial parameters to peers as applicable to the sector;
  - keep abreast of developments, both internal and external to the company, that drive the company's value and risks;
  - check that the company's leadership, succession planning and corporate governance is effective;
  - monitor the quality of the company's reporting;
  - maintain records of the companies we invest in and our related engagement and voting activities; and
  - connect with the company at appropriate forums e.g. investor meetings, analyst meetings, conference calls, general meetings, one-on-one meetings, etc. to better understand the ground reality.

In addition, MLI may use external vendors for inputs for the decision-making process; however the final decision of investment will be that of MLI.

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

##### Guidance provided by the Guidelines

Insurers may decide their own engagement strategy and the policy should clearly set out the criteria/ circumstances in which they will actively intervene. The policy should provide for regular assessment of the outcomes of intervention by the insurer. Intervention should be considered regardless of whether an active or passive investment policy is followed. 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 with investee companies 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.

##### Max Life's approach to the Stewardship Responsibilities

- MLI's focus is on the long-term value creation for its policyholders. Various forums of interaction with managements of investee companies may be used to provide constructive feedback to guide MLI investee companies towards long-term value creation.
- Inputs received from interactions or via public news-flow, management comments, exchange disclosure, etc. could be the basis for an intervention if it is felt that it could adversely impact the investee company's future. MLI would attempt to gain understanding from the investee company on the rationale for any such action. If the action does not appear to be in the interest of MLI policyholders, engagement with the company would be undertaken and the concerns may be voiced. MLI shall intervene basis threshold levels of investment as per its internal guidelines.
- The proposed terms of engagement with investee companies are as follows:
- In its regular course of business, MLI meets its investee companies in various forums, in face-to-face meetings, group conference calls, public investor meets, etc. These forums may be used to give constructive feedback on raising the overall standard of governance, strategy, performance, risk-management, etc. and raise any concerns that MLI may have on the same.
- Long term shareholder wealth creation requires a harmony with the environmental and social causes. Any action that compromises these would be raised with the company to seek clarifications and voice MLI's concerns.
- In cases where the investee company is pursuing developments which are potentially negative, MLI may engage with that company's investor relations department to voice its concerns and impress upon the company to re-consider its decision or may suggest suitable safeguards to make the decision more favourable to minority shareholders.

- 
- If MLI efforts do not seem to be bearing fruit and / or the company is not open to feedback, MLI may escalate the efforts. Escalation may be in the form of
    - a) Coordination with other investors;
    - b) Voting against the proposal; or
    - c) In rare cases, raise the issue with relevant regulators or pursue legal action.
  - In case a company continues to pursue a path that MLI believes is not in the best interest of its policyholders, MLI may choose to exit the investment.

**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.**

Guidance provided by the Guidelines

For issues that require larger engagement with the investee company, insurers may choose to act collectively with other institutional investors 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.

Max Life's approach to the Stewardship Responsibilities

- MLI's approach is to raise issues with the management of investee companies on a "one-to-one" basis.
- If MLI feels that responses are not forthcoming or the investee company is unable to provide sufficient rationale for its actions, MLI may collaborate with other institutional shareholders to collectively convey the concerns and feedback. Collaboration would normally be taken up if individual efforts do not yield necessary responses.
- The collaboration could be used for conveying concerns, collectively voting against a proposal, raising issues with regulators or for legal recourse. In case a company is not willing to receive feedback and continues to pursue a path that MLI believes is not in the best interest of its policyholders, MLI may choose to exit the investment.
- All our engagement activities are undertaken in the best interests of our policyholders.

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

Guidance provided by the Guidelines

Insurers should exercise their own independent judgment as regards voting decisions on resolutions and should not automatically support the proposals of the Board of the investee company. The decisions should be aimed at promoting the overall growth of the investee companies and, in turn, enhance the value of their investors.

The voting policy should be publicly disclosed.

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

Max Life's approach to the Stewardship Responsibilities

- MLI will use its influence as an investor by exercising its right to vote on company matters.
- MLI's investment team will assess shareholder resolutions and decide to cast vote on the same. The voting shall be done keeping in mind the interests of MLI's policyholders and long-term value creation for them.
- The decision to vote is governed by the principles of a) materiality of the holding and b) significance of the issue at hand, as defined by its internal guidelines. Many resolutions are routine resolutions towards the purposes of general continuity of the business such as re-appointment of key management personnel, re-appointment of auditors, adoption of accounts, managerial remuneration, etc. MLI will therefore evaluate resolutions of investee companies and vote only for non-routine resolutions with an objective to protect and enhance value for policyholders. However, each resolution, including routine resolutions, will be checked for red-flags. If red-flags

---

are found, MLI will vote even if the resolution is a routine one. In matters where there is insufficient information or MLI does not have a clear stance on the proposal, MLI may choose to abstain.

- MLI has a robust securities lending and borrowing framework. If there is a corporate action in a security which has been lent which necessitates MLI to undertake stewardship or voting activity, MLI may exercise the option of recalling the security.
- Examples of non-routine resolutions for which MLI is likely to vote (for, against or abstain) are:
  - 1) Changes to business / capital structure
    - a. Amendments to Memorandum of Association, Articles of Association
    - b. Changes in capital structure
    - c. Share Buy-back
    - d. For changing objectives for which money was raised through prospectus
    - e. Stock option plans
  - 2) Acquisition/Divestitures, business reorganisations
    - f. Creditor approvals
    - g. Shareholder approvals
  - 3) Related party transactions
    - h. Royalty arrangements (parent to subsidiary, licensing etc.)
    - i. Inter-group loans
    - j. Related party sourcing/distribution arrangements

#### **Principle 7: Insurers should report periodically on their stewardship activities.**

##### Guidance provided by the Guidelines

In addition to the regular fulfilment of their stewardship activities, insurers 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 disclosures.

##### Max Life's approach to the Stewardship Responsibilities

- MLI will disclose the fulfilment of its stewardship responsibilities as part of its public disclosures published on its website.
- The Investment Committee shall monitor MLI's adherence to this Code and its activities on a periodic basis.

#### DISCLOSURES

##### Guidance provided by the Guidelines

All insurers shall furnish a report on an annual basis to the Authority as per the prescribed format, on the status of compliance with the Stewardship Code. The status report, approved by the Board shall be endorsed by the Compliance Officer and should be submitted on or before 30<sup>th</sup> June every year. The reporting should be done under the principle of "comply or explain", the reasons for deviation or non-compliance with the Stewardship Principles should be provided in the report.

##### Max Life's approach to the Stewardship Responsibilities

- MLI shall furnish annual disclosures to the IRDAI in the prescribed format with respect to its conformance to the Code, post approval by its Board and endorsement by its Compliance Officer.