



Policy on Related Party Transactions

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Policy on Related Party Transactions



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Policy on Related Party Transactions

1. Introduction

1.1. Background

The CA 2013 read with the Rules has specific provisions relating to RPTs, specifying the financial limits, process of approving and reporting the RPTs.

In addition, the CGG 2016 requires all insurance companies to formulate a Policy on RPTs to regulate Transactions between the Company and its Related Parties.

Further, Regulation 23 of the LODR 2015 has prescribed certain approval requirements regarding RPTs and Material Modifications thereto, determination of Material RPTs, disclosure and reporting of RPTs.

1.2. Objective

This Policy is intended to ensure due and timely identification, approval, disclosure and reporting of Transactions between the Company and its Related Parties in compliance with the applicable laws and regulations, identify materiality thresholds for the RPTs and their subsequent Material Modifications and amendments from time to time.

1.3. Applicability

This Policy shall apply to all Transactions between the Company and / or its subsidiaries with its Related Parties.

1.4. Review and approval of the Policy

The Board shall review the Policy on an annual basis.

Any change in the Policy shall be approved by the Audit Committee and Board.

The Policy is effective from the date of approval of the Board.

In case of any amendment(s), clarification(s), circular(s) etc. issued by the relevant authorities, not being consistent with the provisions laid down under this Policy, then such amendment(s), clarification(s), circular(s), etc. shall prevail upon the provisions in this Policy.

2. Policy Requirements

2.1. Policy Statement

The provisions of this Policy are designed to ensure transparency with respect to RPTs in the best interest of the Company and its stakeholders and to comply with the statutory provisions in this regard.

Where the Transactions with related parties are in the nature of Transactions such as reinsurance arrangements or investment Transactions or outsourcing to related parties, for which specific regulations or guidelines have been notified, compliance with the respective regulations or guidelines shall also be ensured.

2.2. Process flow for Related Party Transactions

A. Identification of Related Parties

The Company has separately formulated guidelines for identification and updating the list of related parties as prescribed under Section 2(76) of the CA 2013 read with the Rules framed thereunder, Regulation 2(1)(zb) of the LODR 2015 and the CGG 2016.

The Company Secretary shall be responsible for maintaining an updated list of Related Parties and this shall be reviewed by the Audit Committee annually.

B. Identification of RPTs

The Company shall, prior to entering into a Transaction verify whether the party(ies) involved include(s) any Related Party forming part of the list maintained by it. The Company has separately formulated guidelines for identification of RPTs in accordance with Section 177 and Section 188 of the CA 2013, Regulation 2(1)(zc) of the LODR 2015 and the CGG 2016. The Company has also formulated guidelines for determining whether its Transactions are undertaken in the Ordinary Course of Business and on an arm's length basis.

Every Director, Key Managerial Personnel, Functional / Business heads will be responsible for providing prior notice to the Company Secretary/Compliance Officer of any potential RPT. They will also be responsible for providing additional information about the Transaction that the Board / Audit Committee may request, for being placed before the Audit Committee and the Board.

The Company Secretary/ Compliance Officer, in accordance with the criteria laid down in CA 2013 and SEBI LODR, will determine whether the Transaction entered into by the Company constitutes an RPT, requiring compliance with statutory provisions and this Policy, and provide the same to the Audit Committee for their consideration and approval.

C. Steps for dealing with an RPT

The steps to be followed by the Company for entering into an RPT will include the following:

- a) identify the Transactions with Related Parties;
- b) determine whether the Transaction is in the Ordinary Course of Business or otherwise;
- c) review the commercial terms involved in the Transaction and analyse whether the Transaction is being undertaken on 'arm's length' basis, as if the party is unrelated;
- d) consider the value of the Transaction to determine if it is a Material RPT or Material Modification;
- e) determine the approval requirements applicable to the Transaction in accordance with this Policy;
- f) prepare and maintain relevant documentation supporting the basis of its assessment;
- g) present the required details to the Audit Committee, Board or Shareholders for approvals as required; and execute the Transaction once the approvals are obtained.

Audit Committee's decision on these aspects shall be final. Audit Committee could seek external advice to assist in decision making on these aspects or for that matter in dealing with any issues connected with RPTs.

D. Procedure for approval of Related Party Transactions

I. Approval of the Audit Committee

- Every RPT and subsequent Material Modification is subject to the prior approval of the Audit Committee, whether at a meeting or resolution by circulation or any other manner as prescribed in the CA 2013, Rules made thereunder read with the Secretarial Standards issued by ICSI and the LODR

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2015. Only the members of the Audit Committee who are Independent Directors shall approve the RPTs.

- The Audit Committee shall also pre-approve RPTs where the Company's subsidiary is a party but the Company is not a party and the Transaction, if the value thereof, whether entered into individually or taken together with previous Transactions during a financial year, exceeds the following thresholds (unless exempted under the LODR 2015):
 - i. 10% of the consolidated Turnover of the Company w.e.f. April 1, 2022
 - ii. 10% of the standalone Turnover of the subsidiary w.e.f. April 1, 2023
- Further, the Audit Committee shall also review the status of long-term (more than one year) or recurring RPTs on an annual basis.
- The Audit Committee may grant omnibus approval for RPTs which are recurring in nature, subject to the conditions prescribed under the CA 2013, Rules, CGG 2016 and LODR 2015 as amended from time to time. Such approvals shall be valid for a period not exceeding one financial year and shall require a fresh approval after expiry of such financial year.
- The Audit Committee shall satisfy itself of the need for such omnibus approval and that such approval is in the interest of the Company;
- The omnibus approval shall specify:
 - a. the name(s) of the Related Party, nature of Transaction, period of Transaction, maximum amount of Transactions that shall be entered into,
 - b. the indicative base price / current contracted price and the formula for variation in the price if any; and
 - c. such other conditions as the Audit Committee may deem fit:
- Where the need for RPT cannot be foreseen and the aforesaid details are not available, Audit Committee may grant omnibus approval for such Transactions subject to their value not exceeding INR 1 crore per Transaction.
- The maximum value of the Transactions, in aggregate, which shall be allowed under omnibus route in a year will be 10% of the annual Turnover of the Company.
- Omnibus approval shall not be made for Transactions in respect of selling or disposing the undertaking of the Company.
- An RPT entered into by the Company, which is not under the omnibus approval or otherwise pre-approved by the Audit Committee, will be placed before the Audit Committee for ratification within 3 months of the Transaction.
- The Audit Committee shall review, at least on a quarterly basis, the details of RPTs entered into by the Company and Material Modifications thereto, pursuant to each of the omnibus approvals given.
- In case of RPTs, other than those Transactions referred to in Section 188 of the CA 2013, where the Audit Committee does not approve the Transaction, it shall make its recommendations to the Board.

II. Approval of the Board of Directors of the Company

The Board shall approve all RPTs as are required to be approved under the CA 2013 and Rules and LODR 2015, after considering the information and documents placed before it. Basis the above, the following Transaction require Board approval:

- RPTs specified under Section 188 of the CA 2013 which are not in the Ordinary Course of Business or not at arm's length basis
- The basis for determining arm's length is provided in Appendix 4.2.
- All Material RPTs and subsequent Material Modifications thereto, before recommending them to the shareholders.

In addition to the above, the following kinds of RPTs shall also be placed before the Board for its approval:

- RPTs in respect of which the Audit Committee is unable to determine whether or not they are undertaken in the Ordinary Course of Business and/or on arm's length basis and decides to refer the same to the Board for approval;
- RPTs which are undertaken in the Ordinary Course of Business and on arm's length Basis, but which in Audit Committee's view requires Board approval.
- RPTs that exceed the materiality thresholds as defined in the Policy.

III. Approval of the Shareholders of the Company

All Material RPTs and subsequent Material Modifications, shall require prior shareholder approval through resolution (unless exempted under applicable law) and no Related Parties shall vote to approve such resolutions whether the entity is a Related Party to the particular Transaction or not.

In addition to the above, all RPTs specified under Section 188 of the CA 2013 which:

- are not in the Ordinary Course of Business or not at arm's length basis; and
- exceed the thresholds laid down in the Rules shall be placed before the shareholders for its approval.

IV. Other requirements with respect to RPT approvals

The Company shall provide all the necessary information and documents as provided under the applicable law and as prescribed by SEBI from time to time, for review of the Audit Committee, Board and shareholders, in order to enable them to take an informed decision about the approval of a proposed RPT or Material Modification thereto, as applicable.

While considering any RPT, the Audit Committee, Board, shareholders as applicable, shall take into account all relevant facts and circumstances including the terms of the Transaction, the business purpose of the Transaction, the benefits to the Company and to the Related Party, any potential risks to the Company and any other relevant matters.

Any member of the Audit Committee or Board or a shareholder who has a potential interest in any RPT shall recuse himself/ herself and abstain from discussion and voting on the approval of the RPT in the respective meetings.

V. Related Party Transactions not approved under this Policy

In case any RPT involving any amount not exceeding INR 1 Crore is entered into by a Director or officer of the Company without obtaining the approval of the Audit Committee and it is not ratified by the Audit Committee within 3 months from the date of the Transaction, such Transaction shall be voidable at the option of the Audit Committee and if the Transaction is with the Related Party to any director or is authorised by any other director, the director concerned shall indemnify the Company against any loss incurred by it.

Where any contract or arrangement is entered into by a Director or any other employee, without obtaining the consent of the Board or approval by a resolution in the general meeting under Section 188(1) and if it is not ratified by the Board or, as the case may be, by the shareholders at a meeting within three months from the date on which such contract or arrangement was entered into, such contract or arrangement shall be voidable at the option of the Board or, as the case may be, of the shareholders, and if the contract or arrangement is with a Related Party to any director, or is authorised by any other director, the directors concerned shall indemnify the Company against any loss incurred by it.

3. Compliance and Reporting

The Company shall disclose, in the Board's Report, the requisite RPTs as envisaged in Section 188 of the CA 2013, Form AOC-2 s and in the Notes forming part of the Accounts, as required under the relevant Accounting Standards. The disclosures about payments made to group entities of the Company, if any, out of the policyholders' funds, shall be made as a part of the Related Party disclosures in terms of the CGG 2016.

The Company shall submit within 15 days from the date of publication of its standalone and consolidated financial results, disclosures of RPTs, in the format specified by SEBI, to the stock exchanges and publish the same on its website. Effective 01 April 2023, the disclosures shall be submitted on the date of publication of the financial results.

The Company shall also submit the details of all Transactions with related parties on a consolidated basis, in the format specified in the relevant Accounting Standards for annual results to the stock exchanges and the same shall be published on the Company's website.

4. Appendices

4.1 Definitions

- a) **Accounting Standards** shall mean the Accounting Standards issued by Institute of Chartered Accountants of India from time to time.
- b) **Arm's Length Transaction** shall mean a Transaction between two related parties that is conducted as if they are unrelated, so that there is no conflict of interest.

Arm's length basis for a Transaction not only includes the price/ cost but also other terms and conditions such as tenure, credit period, payment terms, etc.

The determination of arm's length basis may be carried out by an effective approach of comparison with pricing and other terms and conditions of Transactions with independent parties which may involve comparison of the terms a) with those of an identical/similar Transaction with one or more unrelated parties or b) with known market terms for identical/similar Transactions. Where applicable, guidance may be taken from provisions of Transfer Pricing under Income Tax Act, 1961 or applicable IRDAI guidelines for determining arm's length basis.

- c) **Audit Committee** means the Audit Committee constituted by the Board of the Company from time to time as per the provisions of Section 177 of the CA 2013 and Regulation 18 of the LODR 2015
- d) **Board** means the Board of Directors of the Company.
- e) **CA 2013** means the Companies Act, 2013 and rules made thereunder, as amended from time.
- f) **CGG 2016** shall mean Corporate Governance Guidelines 2016 issued by IRDAI in May 2016.
- g) **Company** means Star Health and Allied Insurance Company Limited.
- h) **IRDAI** shall mean Insurance Regulatory and Development Authority of India.
- i) **LODR 2015** means the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 as amended from time to time.
- j) **Material RPT** shall mean a Transaction with a Related Party if a Transaction/ Transactions to be entered into individually or taken together with previous Transactions during a financial year, exceeds INR 1,000 Crores or ten (10) percent of the annual consolidated Turnover of the Company as per the last audited financial statements of the Company, whichever is lower.

Notwithstanding the above, a 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 five (5) percent of the annual consolidated Turnover of the Company as per the last audited financial statements of the Company.

- k) **Material Modification** means any subsequent change to an existing RPT involving:
- i. A variance of 20% of the existing value or INR 10 crores whichever is lower; or
 - ii. A significant change in the tenure of the contract/ Transaction; or
 - iii. Modification resulting in the RPT no longer meeting the arm's length principle or Ordinary Course of Business test;
 - iv. Novation of parties, addition of parties, etc.; or
 - v. Any other change in the terms and conditions of the contract/ Transaction considered as material by the Audit Committee.
- l) **Ordinary Course of Business ('OCB')** shall mean a Transaction which is:
- carried out in the normal course of business envisaged in accordance with the Memorandum of Association (MoA) of the Company as amended from time to time, or
 - a business activity and the income, if any, earned from such activity/Transaction is assessed as business income in the Company's books of accounts, or common commercial practice or industry practice, even though the Company may have not done it in the past or
 - frequent or repetitive or carried out historically by the Company
 - meets any other parameters / criteria as decided by the Board/Audit Committee.

Individually, none of the above parameters can amounts to the Transactions being in the Ordinary Course of business.

Examples of Transactions in the Ordinary Course of Business for the Company - issuance of policies, printing, dispatch of policies, collection of premium, distribution arrangements like corporate agency, broking etc.

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- m) **Policy** shall mean this Related Party Transactions Policy
- n) **Relative** in relation to a Related Party shall have the same meaning assigned to in Section 2(77) of the CA 2013.
- o) **Related Party** shall have the same meaning as defined under Regulation 2(1)(zb) of the LODR 2015.
- Reference and reliance may be placed on the clarifications issued by the Ministry of the Corporate Affairs, SEBI and IRDAI and other Authorities from time to time on the interpretation of the term “Related Party”.
- p) **Related Party Transaction or RPT** shall mean a Transaction with a Related Party as envisaged in Regulation 2(1)(zc) of the LODR 2015 as amended from time to time.
- o) **Rules** shall mean the Companies (Meetings of Board and its Powers) Rules, 2014.
- p) **SEBI** means the Securities and Exchange Board of India.
- q) **Transaction** shall mean a single Transaction or a group of Transactions.
- r) **Turnover** has been defined as 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 Company during a financial year. Accordingly, for the Company, the ‘Turnover’ is considered as the Total Income i.e. the total of Gross Written Premium.

Capitalised terms used in this Policy and not defined above shall have the same meaning as assigned to them under the CA 2013 or LODR 2015 or CGG 2016 or any other applicable law or guidelines.

Appendix 4.2

4.2 Determination of arm’s length basis

The following table lists various types of Transactions generally undertaken by the Company with Related Parties, along with the basis of pricing and the arm’s length criteria

Sr. No.	Nature of Transactions	Indicative base price/current contracted price and the formula for variation in the price	Arm's length basis
1	Insurance Services: Insurance Premium	As per underwriting policy of the Company	As per underwriting policy of the Company
2	Insurance Services: Claims paid	Claims are settled on the basis of the policy terms & conditions.	Claims are settled on the basis of Claim documents submitted by hospitals/insured.
3	Commission/Brokerage	As per the rates prescribed by IRDAI	As per the rates prescribed by IRDAI

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Sr. No.	Nature of Transactions	Indicative base price/current contracted price and the formula for variation in the price	Arm's length basis
4	Establishment, and other expenditures including reimbursements.	As per comparative market price basis	As per comparative market price basis
5	Dealings in investment securities, including purchase/sale of securities and brokerage relating to investment including placement of fixed deposits.	As per the investment policy of the Company based on prevailing market rates	As per the investment policy of the Company based on prevailing market rates