

Related Party Transaction Policy



Corporate Office:

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1. Background:

The Companies Act, 2013 (“the Act”) has introduced Sections 177 and 188, which contain provisions regarding related party transactions. These sections, along with the relevant Rules framed under the Companies Act, have introduced certain compliance and approval requirements regarding the related party transactions. Such a policy is also mandated by the Guidelines on Corporate Governance, 2024 (“CG Guidelines”) as released by the Insurance Regulatory and Development Authority of India.

Accordingly, Narayana Health Insurance Company Limited (“the Company”) adopts the Policy on Related Party Transaction (“the Policy”) with regard to related party transactions. Any changes in the provisions, clarifications, Frequently Asked Questions (FAQs) issued under the Companies Act/CG Guidelines/any other applicable laws, regarding related party transactions will be applicable to the Policy/ Framework on Related Party Transaction from the date the changes, clarifications or FAQs are effective.

2. Definition:

2.1. “Related Party” - Related party has been defined in the Act as amended from time to time and also in Accounting Standard 18 (‘AS 18’).

Definitions as per the respective regulations are given below; for the purposes of this Policy, definitions as amended from time to time shall be considered.

2.1.1. Under the Act:

“Related party”, with reference to section 2 (76) of the Act, means:

2.1.1.1. Director or his relative;

2.1.1.2. A Key Managerial Personnel or his relative;

2.1.1.3. A Firm, in which a Director, Manager or his relative is a partner;

2.1.1.4. A private company in which a Director or Manager or his relative is a member or Director;

2.1.1.5. A public company in which a director or manager is a director and holds along with his relatives, more than two per cent. of its paid-up share capital;

2.1.1.6. Any body corporate whose Board of Directors, Managing director, or Manager is accustomed to act in accordance with the advice, Directions or instructions of a Director or Manager;

2.1.1.7. Any person on whose advice, directions, or instructions a Director or Manager is accustomed to act:

Provided that nothing in sub-clauses (2.1.6) and (2.1.7) shall apply to the advice, directions, or instructions given in a professional capacity;

2.1.1.8. Any company which is—

- a. A holding company, subsidiary, or an associate company of such company;
- b. A subsidiary of a holding company to which it is also a subsidiary;

2.1.1.9. A director, other than an independent director or key managerial personnel of the holding company or his relative with reference to a company.

2.1.2. **Under AS 18:**

Related party relationships are described under AS 18, as follows:

2.1.2.1. Enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise (this includes holding companies, subsidiaries and fellow subsidiaries);

2.1.2.2 Associates and joint ventures of the reporting enterprise and the investing party or venturer in respect of which the reporting enterprise is an associate or a joint venture;

2.1.2.3. Individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual;

2.1.2.4. Key Management Personnel and relatives of such personnel;

2.1.2.5. Enterprises over which any person described in (2.2.2.) or (2.2.3.) is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the reporting enterprise and enterprises that have a member of key management in common with the reporting enterprise.

2.2. **Related Party Transaction**

Related party transaction” means a transaction involving a transfer of resources, services, or obligations between:

2.2.1. An entity or any of its subsidiaries on one hand, and any other person or entity on the other hand, the purpose and effect of which is to benefit a related party of the entity or any of its subsidiaries, with effect from April 1, 2023;

2.2.2 Regardless of whether a price is charged and a “transaction” with a related party shall be construed to include a single transaction or a group of transactions in a contract:

Provided that the following shall not be considered as a related party transaction:

- 2.2.1.1. the issue of specified securities on a preferential basis, subject to compliance with the requirements under the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018;
- 2.2.1.2. the following corporate actions which are uniformly applicable/offered to all shareholders in proportion to their shareholding:
 - a. payment of dividends;
 - b. sub-division or consolidation of securities;
 - c. issuance of securities by way of a rights issue or a bonus issue; and
 - d. buy-back of securities;
- 2.2.1.3. acceptance of fixed deposits by banks/Non-Banking Finance Companies at the terms uniformly applicable/offered to all shareholders/public, subject to disclosure of the same along with the disclosure of related party transactions every six months to the stock exchange(s), in the format as specified by the Board;

2.3. Material Related Party Transactions

Material Related Party Transactions means a transaction(s) with a Related Party shall be considered as significant/ material if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceeds the following thresholds as defined under the Companies Act, 2013 and Rules framed thereunder or under any applicable provisions of the relevant Regulatory authority (including any statutory modification(s) or reenactment thereof, for the time being in force):

2.3.1. Rupees one thousand crore or

2.3.2. Ten percent of the annual 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 percent of the annual turnover of the Company as per the last audited financial statements of the Company.

2.4. Associate Company

“Associate company” in relation to another company, means a company in which that other company has a significant influence, but which is not a subsidiary company of the Company having such influence and includes a joint venture company.

2.5. Turnover

“Turnover” has been defined as the aggregate value of the realization of the amount made from the 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 income and other income.

2.6. Ordinary course of business

“Ordinary course of business” includes but is not limited to a term for activities that are necessary, normal, and incidental to the business. These are common practices and customs of commercial transactions. The ordinary course of business covers the usual transactions, customs, and practices related to the business.

The following factors are indicative of a transaction being in the ordinary course of business:

- 2.6.1. The transaction is normal or otherwise unremarkable for the business.
- 2.6.2. The transaction is frequent/regular.
- 2.6.3. The transaction is a source of income for the business.
- 2.6.4. Transactions that are part of the standard industry practice, even though the Company may not have done it in the past.
- 2.6.5. These are not exhaustive criteria, and the Company will have to assess each transaction considering its specific nature and circumstances.

3. Arms’ Length Principles

In terms of the Act, the expression ‘Arm’s Length Transaction’ means a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.

For the purpose of compliance with the Arm’s Length Principle, an effective approach is a comparison with the pricing of transactions with independent parties, which may involve a comparison of the terms :

- (a) with those of an identical or similar transaction with one or more unrelated parties; or

- (b) with known market terms for identical or similar transactions. However, different types of transactions may require other methods for assessing arm's length pricing.

4. Nature of transactions

The transactions/relationships, *inter-se*, between Narayana Health Insurance Limited and its related parties as defined in the framework could be of diverse nature. The nature of transactions, the basis of arms' length, and the method of determining arms' length are mentioned in the Related Party Framework.

5. Review and Approval of Related Party Transactions

5.1. Audit Committee

All related party transactions and subsequent material modification, where the Company is one of the parties to the transaction, should be pre-approved by the Audit Committee of the Company before entering into such a transaction. The Audit Committee shall consider all relevant factors while deliberating the related party transactions for its approval. The Audit Committee may not approve a transaction but may make appropriate recommendations to the Board. Any member of the Committee who has a potential interest in any related party transaction will recuse himself/herself and abstain from discussion and voting on the approval of the related party transaction. Further, only those members of the Committee, who are independent directors, shall approve related party transactions.

A related party transaction that is:

- i. not in the ordinary course of business, or
- ii. not at arm's length price, would require approval of the Board of Directors or of shareholders as mentioned subsequently.

The Audit Committee may grant omnibus approval for related party transactions of the Company, which are repetitive in nature and subject to certain criteria/conditions as required under the Companies (Meetings of Board and its Powers) Rules, 2014 as amended and such other conditions as it may consider necessary in line with this policy and in the interest of the Company. Such omnibus approval shall be valid for one financial year.

The Audit Committee shall review, on a quarterly basis, the details of related party transactions entered into by the Company pursuant to the omnibus approval. In connection with any review of a related party transaction, the Committee has the authority to modify or waive any procedural requirements of this policy.

Prior approval for a related party transaction of the Company, not covered under omnibus approval, will be obtained from the Audit Committee. A related party transaction entered

into by the Company, which is not under the omnibus approval or otherwise pre-approved by the Committee, will be placed before the Committee for ratification.

A transaction, not covered in omnibus approval, amounting up to ₹ 1 Crore, entered by a director, key managerial personnel, or any other officer of the Company, on whose directions or instructions the Board of Directors or director(s) are accustomed to act, would be voidable at the option of the Audit Committee, unless it has been ratified by the Audit Committee within three months from the date of the transaction.

5.2. Board of Directors

In case any related party transactions are referred by the Company to the Board for its approval due to the transaction being

- i. Not in the ordinary course of business, or
- ii. Not at an arm's length price, or
- iii. A transaction not approved but recommended by the Audit Committee, the Board will consider such factors as the nature of the transaction, material terms, the manner of determining the pricing, and the business rationale for entering into such transaction.

On such consideration, the Board may approve the transaction or may require modifications to transaction terms as it deems appropriate under the circumstances. Any member of the Board, who has any potential interest in any related party transaction will recuse himself/herself and abstain from discussion and voting on the approval of the related party transaction.

5.3. Shareholders

Material-related party transactions or subsequent material modifications will require shareholders' approval through resolution and no related parties will vote to approve such resolutions whether the entity is a related party to the particular transaction or not. If a related party transaction, entered by the Company, is not in the ordinary course of business, or not at arm's length price and exceeds certain thresholds prescribed under the Companies Act, 2013, it shall require shareholders' approval by a resolution. In such a case, any member who is a related party having an interest in the transaction for which resolution is being proposed, shall not vote on such resolution passed for approving related party transaction.

6. Related Party Transactions not previously approved

- 6.1. Where any contract or arrangement is entered into by a director or any other employee of the Company with a related party, without obtaining the consent of the Board or approval by a resolution in the general meeting, where required, 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 and if the contract or arrangement

is with a related party to any director, or is authorized by any other director, the directors concerned shall indemnify the company against any loss incurred by it.

6.2. The Company may proceed against a director or any other employee who had entered into such contract or arrangement in contravention of this policy for recovery of any loss sustained by it as a result of such contract or arrangement and shall take any such action, it deems appropriate.

7. Transactions covered under this Policy:

Transactions covered by this policy include but are not limited to any contract or arrangement with a related party with respect to

- 7.1. sale, purchase, or supply of any goods or materials;
- 7.2. selling or otherwise disposing of, or buying, property of any kind;
- 7.3. leasing of property of any kind;
- 7.4. availing or rendering of any services;
- 7.5. appointment of any agent for the purchase or sale of goods, materials, services or property;
- 7.6. such related party's appointment to any office or place of profit in the Company, its subsidiary company, or associate company; and
- 7.7. underwriting the subscription of any securities or derivatives thereof, of the Company.
- 7.8. Brand License Fees if any
- 7.9. Health Insurance Premium Collection and Administration for the members of NHIC plan member
- 7.10. Staff Insurance Coverage
- 7.11. Medical Tests
- 7.12. Insurance Claims
- 7.13. Shared Services
- 7.14. Directors Sitting fees paid to related Directors of NHIL
- 7.15. Sharing of NHL customer data for sourcing of Insurance Business with prior consent from patients
- 7.16. Any other expenditure incurred for NHIL Activity

8. Reporting of Related Party Transactions

The Act, Accounting Standard 18 and under any applicable provision of relevant Regulatory authorities, places the following reporting requirements on an entity, which will be duly complied with by the Company:

- 8.1. A note on transactions with related parties is to be placed at the Audit Committee every quarter for its review, in compliance with the requirements of sections 177 and 188 of the Act, 2013.
- 8.2. Disclosure of related parties and transactions with related parties as per AS 18 in the notes to account for forming part of the Financials of the Company.

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- 8.3. Every contract or arrangement, which is required to be approved by the Board/shareholders under this Policy, is to be referred to in the Board's report to the shareholders along with the justification for entering into such contract or arrangement.
- 8.4. The disclosure as may be prescribed in the corporate governance reports on related parties shall be submitted to the parent entity. Consequent upon which, the parent entity may make appropriate reporting in full or part as it deems appropriate, which is required to be submitted to the stock exchanges on a quarterly basis.
- 8.5. Disclosure of transactions with any person or entity belonging to the promoter/promoter group of the Company and having shareholding of 10% or more in the Company in the annual report.
- 8.6. The review of related party transactions shall be carried out by an independent external consultant once in a block of three years and the report will be placed before the Audit Committee.

9. Review of the Policy

The Audit Committee and the Board shall review this Policy:

- a. at least once every financial year, or
- b. as and when the Board/Audit Committee considers it appropriate, or
- c. as and when the underlying laws governing the Policy undergo any change including any relevant change in the laws mentioned in the Governing Law section of this Policy.

Annexure A:

The following table lists of various types of indicative transactions may be undertaken by the Company with related parties, along with the basis of pricing and the arm's length criteria, for omnibus approval of the Committee. The duration of the transaction may vary depending on the nature of the transaction.

S. No.	Nature of transactions	Name of related party	Indicative base price/ current contracted price and the formula for variation in the price	Arm's length basis
1.	Health Insurance Premium collection and administration	the members of NHIC plan members	As per the underwriting policy of the Company	As per the underwriting policy of the Company
2.	Insurance Coverage	All entities, directors, KMPs, and their relatives of the Company/Holding Company	As per the underwriting policy of the Company	As per the underwriting policy of the Company
3.	Medical Tests	All entities, directors, KMPs and their relatives of the Company/Holding Company	As per the Agreement	As per the Agreement
4.	Insurance Claims	All entities, directors, KMP's and their relatives of the Company/Holding Company	Claims are settled on the basis of the policy terms & conditions and the Company's claims manual	Claims are settled on the basis of the policy terms & conditions and the Company's claims manual
5.	Shared Services	NHL & NHIC	As per the Agreement and Cyber Security Policy	As per the Agreement and Cyber Security Policy
6.	Lease of Office Space for Insurance related activities	All entities, directors, KMP's, and their relatives of the	As per agreement	As per agreement

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		Company/Holding Company		
7.	Directors Sitting fees	Directors of the Company	As per the Nomination and Remuneration Policy of the Company and IRDAI prescriptions.	As per the Nomination and Remuneration Policy of the Company and IRDAI prescriptions.
8.	Sharing of customer data for sourcing of Insurance Business	NHL	As per the Cyber Security Policy of the Company and IRDAI prescriptions.	As per the Cyber Security Policy of the Company and IRDAI prescriptions.
9.	Any other expenditure incurred for NHIL Activity	All entities, directors, KMP's and their relatives of the Company/Holding Company	As per IRDAI or any other law prescription	As per IRDAI or any other law prescription
