



# **BAID FINSERV LIMITED**

**(FORMERLY KNOWN AS BAID LEASING AND FINANCE CO. LTD.)**

## **POLICY ON OUTSOURCING**

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Company Circulation

## Version Control

Document Version	Description of Change/Annual Review	Date	Prepared / Changed by
1.0	Annual Review	04 <sup>th</sup> May 2022	Office of Chief Financial Officer

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## **INTRODUCTION:**

The Reserve Bank of India has issued guidelines on Outsourcing to provide direction/ guidance to NBFC, to adopt sound and responsive risk management practices for effective oversight, due diligence and management of risk arising from outsourcing activities. In regard to managing risks applicable in outsourcing of financial services, RBI's detailed instructions contained in its circular issued on November 09, 2017 (bearing Ref. no. RBI/2017- 18/87DNBR.PD.CC.NO.090/03.10.001/2017-18.). The Company has framed a Policy keeping in view of the same.

The guidelines are applicable to outsourcing arrangements entered into by a NBFC with a service provider located in India or elsewhere. The service provider may either be a member of the group/conglomerate to which the NBFC belongs, or an unrelated party.

Outsourcing relationships shall be governed by written contracts / agreements that clearly describe all material aspects of the outsourcing arrangement, including the rights, responsibilities and expectations of the parties to the contract, client confidentiality issues, termination procedures, etc.

The objective of this Policy is to adopt sound and responsive risk management practices for effective oversight, due diligence and management of risk arising from outsourcing activities.

## **SCOPE OF THE POLICY:**

The policy incorporates the criteria for selection of the activities that may be outsourced, risks arising out of outsourcing and management of these risks, due diligence of outsourcing service providers, delegation of powers depending on risks & materiality, systems to monitor and review the operations of these activities.

The NBFC resorts to Outsourcing for its activities either on continuous basis or for specific jobs / assignment. While doing so, besides the cost consideration, compliance of legal obligations, supervisory requirements and assessment of risk associated with outsourcing, assume prime importance.

## **OUTSOURCING:**

'Outsourcing' is defined as the use of a third party (either an affiliated entity within a corporate group or an entity that is external to the corporate group) to perform activities on a continuing basis that would normally be undertaken by the Company itself, now or in the future.

'Continuing basis' includes agreements for a limited period.

The activities shall refer to outsourcing of financial services and are not applicable to technology- related issues and activities not related to financial services, such as usage of courier, catering of staff, housekeeping and janitorial services, security of the premises, movement and archiving of records, etc.

An indicative list of activities that may be considered for outsourcing shall be as under:

- Field investigation;
- Call Centre Services;
- Legal Services;
- Information Technology Services;
- Collections and Debt Recovery Services;
- Human Resources Management and Recruitment Services;
- Payroll Management Services;
- Data processing;
- Application / Software Maintenance Services;

Decision making process in relation to the above services shall always lie with the Company.

The above list is inclusive only not exhaustive. Additional activities within the definition of outsourcing can also be outsourced by the company.

## **ACTIVITIES THAT SHOULD NOT BE OUTSOURCED:**

The Company shall not outsource its core and critical activities. An illustrative list of activities that cannot be outsourced:

- Maintenance and safekeeping of critical data;
- Monitoring and redressal of investor grievances;
- Surveillance Functions;
- Management of Investment portfolio;
- Decision making functions such as determination of KYC norms for loan processing /account opening and / or according sanction for loans;
- Internal Audit;
- Strategic and Compliance functions;

Subject to compliance with this policy, the Company is entitled to outsource these functions in a group/

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conglomerate. Also, the internal audit function itself is a management process, the internal auditors can however, be on contract.

### **RISK ARISING OUT OF OUTSOURCING:**

Outsourcing of financial services exposes a Company to a number of risks which may not be appropriately evaluated and effectively managed & mitigated.

**The Key risks in outsourcing that need to be evaluated by the NBFC are:-**

- **Strategic Risks** - The service provider may conduct business on its behalf, which is inconsistent with the overall strategic goals of the Company.
- **Reputation Risk** - Poor service from the service provider, its customer interaction may not be consistent with the overall standards of the Company.
- **Compliance Risk** – Where privacy, consumer and prudential laws are not adequately complied with by the service provider.
- **Operational Risk** - Arising due to technology failure, fraud, error, inadequate financial capacity of service provider to fulfill obligations and/or provide remedies.
- **Legal Risk** – Includes, but is not limited to, exposure to fines, penalties or punitive damages resulting from supervisory actions, as well as private settlements due to omissions and commissions of the service provider.
- **Exit Strategy Risk** - This could arise from over-reliance on one firm, the loss of relevant skills in the Company itself preventing it from bringing the activity back in-house and contracts entered into wherein speedy exits would be prohibitively expensive.
- **Counter party Risk** – Where there is inappropriate underwriting or credit assessments.
- **Country Risk** - Due to political, social or legal climate of country where the service provider is located.
- **Contractual Risk** - This risk arises from inability or degree of ability of the Company to enforce the contract with the service provider.
- **Confidentiality Risk** – This risk arises due to leakage of customer information by the service providers.
- **Concentration and Systemic Risk** - Due to lack of control of the Company over a service provider, more so when overall related industry has considerable exposure to one service provider. The failure of the service provider in providing the desired services covered by the terms of agreement or any non-compliance of any legal / regulatory requirements by the service provider can lead to reputational or financial loss for the company which can trigger a systematic risk in the related system

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as such. The imperative therefore will be securing effective management by the Company for mitigation of this risk.

#### **MANAGEMENT OF RISKS:**

**To overcome the risk arising out of outsourcing it becomes necessary to have in place-**

- ✓ Policy guidelines on availing outsourcing services;
- ✓ Adequate mechanisms to ensure effective oversight on the operations;
- ✓ Alternate plan to switch over in case of abrupt discontinuation of services;
- ✓ All concerned departments shall follow the below mentioned principles applicable to arrangements entered into by the Company with the service provider.

#### **GENERAL APPRAISAL:**

- While outsourcing a financial activity, the Company shall consider all relevant laws, regulations, guidelines and conditions of approval, licensing or registration.
- The Company shall retain ultimate control of the outsourced activity, as outsourcing of any activity by the Company does not diminish its obligations, and those of its Board and Senior Management, who have responsibility for the outsourced activity. The Company shall therefore remain responsible for the actions of its service provider including Direct Sales Agents/ Direct Marketing Agents and recovery agents and the confidentiality of information pertaining to the customers that is available with the service provider.
- The outsourcing arrangements shall neither diminish the Company's ability to fulfill its obligations to customers and RBI nor impede effective supervision by RBI. The Company shall, therefore, ensure that the service provider employs the same high standard of care in performing the services as would be employed by the Company, if the activities were conducted within the Company and not outsourced.
- The Company shall not engage in such outsourcing that would result in its internal control, business conduct or reputation being compromised or weakened.
- The Company shall ensure that the service provider does not impede or interfere with the ability of the Company to effectively oversee and manage its activities nor does it impede the RBI in carrying out its supervisory functions and objectives. Therefore, the right of the Company and the RBI to access all books, records and information available with the service provider should remain protected.
- The Company shall continue to have a robust grievance redressal mechanism, which shall not be compromised on account of outsourcing.

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Outsourcing arrangements shall not affect the rights of the customer against the Company, including the ability of the customer to obtain redress as applicable under relevant laws.

**APPRAISAL OF SERVICE PROVIDER:**

While outsourcing or renewing contract of outsourcing of an activity with a service provider, the Company shall take into consideration:

- That the Service Provider, if it is not a subsidiary of the Company, is not owned or controlled by any Director or Officer/ Employee of the Company or their relatives having the same meaning as assigned under the Companies Act, 2013.
- The capability of the service provider to comply with obligations in the outsourcing agreement such as:
  - ✓ Qualitative, quantitative, financial, operational and reputational factors.
  - ✓ Compatibility with their own systems.
  - ✓ Ability to develop and establish a robust framework for documenting, maintaining and testing business continuity and recovery procedures so that the service provider shall periodically test the Business Continuity and Recovery Plan and occasional joint testing and recovery exercises with its service provider and jointly conducted by the Company;
  - ✓ Outsourcing often leads to the sharing of facilities operated by the service provider. The Company shall ensure that service providers are able to isolate the Company's information, documents and records, and other assets. This is to ensure that in appropriate situations, all documents, records of transactions and information given to the service provider, and assets of the Company, can be removed from the possession of the service provider in order to continue its business operations, or deleted, destroyed or rendered unusable. Where service provider acts as an outsourcing agent for multiple companies, care shall be taken to build strong safeguards so that there is no commingling of information/documents, records and assets.

**EXAMINATION AND EVALUATION:**

An evaluation shall be conducted of all available information about the service provider, including:

- Past experience and competence to implement and support the proposed activity over the contracted period;
- Financial soundness and ability to service commitments even under adverse conditions;
- Business reputation and culture, compliance, complaints and outstanding or potential litigation;

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- Standards of performance including in the area of customer service;
- Security and internal control, audit coverage, reporting and monitoring environment, Business continuity management;
- The Company shall ensure that the service provider has performed a due diligence of its employees
- Wherever possible, the Company shall obtain independent reviews and market feedback on the service provider to supplement its own findings.
- The Company shall avoid undue concentration of outsourcing arrangements with a single service provider.
- Public confidence and customer trust in the Company is a pre-requisite for the stability and reputation of the Company. Hence the Company shall seek to ensure the preservation and protection of the security and confidentiality of customer information in the custody or possession of the service provider. As such, access to customer information by staff of the service provider shall be on “need to know” basis i.e. limited to those areas where the information is required in order to perform the outsourced function.
- The Company shall ensure that the service provider is able to isolate and clearly identify the Company’s customer information, documents, records and assets to protect the confidentiality of the information. In instances, where service provider acts as an outsourcing agent for multiple companies, care shall be taken to build strong safeguards so that there is no comingling of information / documents, records and assets.

**MATERIAL OUTSOURCING:**

Material outsourcing arrangements are those which, if disrupted, have the potential to significantly impact the business operations, reputation, profitability or customer service. Materiality of outsourcing would be based on:

- the level of importance to the Company of the activity being outsourced as well as the significance of the risk posed by the same;
- the potential impact of the outsourcing on the Company on various parameters such as earnings, solvency, liquidity, funding capital and risk profile;
- the likely impact on the Company’s reputation and brand value, and ability to achieve its business objectives, strategy and plans, should the service provider fail to perform the service;

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- the cost of the outsourcing as a proportion of total operating costs of the Company;
- the aggregate exposure to that particular service provider, in cases where the Company outsources various functions to the same service provider; and
- the significance of activities outsourced in context of customer service and protection.

**POST OUTSOURCING APPRAISAL:**

In order to mitigate the risk of unexpected termination of the outsourcing agreement or liquidation of the service provider, the Company shall:

- Retain an appropriate level of control over its outsourcing and the right to intervene with appropriate measures to continue its business operations in such cases without incurring prohibitive expenses and without any break in the operations of the Company and its services to the customers.
- Establish a viable contingency plan to consider the availability of alternative service providers or the possibility of bringing the outsourced activity back-in-house in an emergency and the costs, time and resources that would be involved.
- Review and monitor the security practices and control processes of the service provider on a regular basis and require the service provider to disclose security breaches.
- Immediately notify RBI in the event of any breach of security and leakage of confidential customer related information. In these eventualities, the Company would be liable to its customers for any damage.

**OUTSOURCING WITHIN GROUP / CONGLOMERATE:**

- The Company shall enter into service level agreements/ arrangements with their group entities, which shall also cover demarcation of sharing resources i.e. premises, personnel, etc. and other back-office and service arrangements/ agreements with group entities such as legal and other professional services, hardware and software applications, centralize back-office functions, outsourcing certain financial services etc;

- The customers shall be informed specifically about the Company which is actually offering the product/ service, wherever there are multiple group entities involved or any cross selling observed;
- While entering into such arrangements, the Company shall ensure that these:
  - ✓ are appropriately documented in written agreements with details like scope of services, charges for the services and maintaining confidentiality of the customer's data;
  - ✓ do not lead to any confusion to the customers on whose products/ services they are availing by clear physical demarcation of the space where the activities of the Company and those of its other group entities are undertaken;
  - ✓ do not compromise the ability to identify and manage risk of the Company on a stand-alone basis;
  - ✓ do not prevent the RBI from being able to obtain information required for the supervision of the Company or pertaining to the group as a whole; and
  - ✓ incorporate a clause under the written agreements that there is a clear obligation for any service provider to comply with directions given by the RBI in relation to the activities of the Company.
- The Company shall ensure that their ability to carry out their operations in a sound fashion would not be affected if premises or other services (such as IT systems, support staff) provided by the group entities become unavailable;
- If the premises of the Company are shared with the group entities for the purpose of cross selling, the Company shall take measures to ensure that the entity's identification is distinctly visible and clear to the customers. The marketing brochure used by the group entity and verbal communication by its staff / agent in the Company's premises shall mention nature of arrangement of the entity with the Company so that the customers are clear on the seller of the product.
- The Company shall not publish any advertisement or enter into any agreement stating or suggesting or giving tacit impression that they are in any way responsible for the obligations of its group entities.
- The risk management practices expected to be adopted by the Company while outsourcing to a related party (i.e. party within the Group / Conglomerate) would be identical to those specified in this Policy and directions as may be issued by Reserve Bank of India from time to time.

#### **THE OUTSOURCING AGREEMENT:**

The terms and conditions governing the contract between the NBFC and the service provider should be carefully defined in written agreements and vetted by a competent authority on their legal effect and enforceability. Every such agreement should address the risks and risk mitigation strategies identified at the risk evaluation and due diligence stages. The agreement should be sufficiently flexible to allow the NBFC to retain an appropriate level of control over the outsourcing and the right to intervene with appropriate measures to meet legal and regulatory obligations.

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**The basic ingredients of the agreement would be:**

- a) the contract shall clearly define what activities are going to be outsourced including appropriate service and performance standards;
- b) the Company must ensure it has the ability to access all books, records and information relevant to the outsourced activity available with the service provider;
- c) the contract shall provide for continuous monitoring and assessment of the service provider so that any necessary corrective measure can be taken immediately;
- d) a termination clause and minimum period to execute a termination provision, if deemed necessary, shall be included;
- e) controls to ensure customer data confidentiality and service providers' liability in case of breach of security and leakage of confidential customer related information shall be incorporated;
- f) contingency plans to ensure business continuity;
- g) the contract shall provide for the prior approval/ consent by the Company of the use of sub-contractors by the service provider for all or part of an outsourced activity;
- h) provide the Company with the right to conduct audits on the service provider whether by its internal or external auditors, or by agents appointed to act on its behalf and to obtain copies of any audit or review reports and findings made on the service provider in conjunction with the services performed for the Company;
- i) include clauses to allow the RBI or persons authorised by it to access the Company's documents, records of transactions, and other necessary information given to, stored or processed by the service provider within a reasonable time;
- j) include a clause to recognize the right of the RBI to cause an inspection to be made of a service provider of the Company and its books and account by one or more of its officers or employees or other persons;
- k) provide that confidentiality of customer's information shall be maintained even after the contract expires or gets terminated and
- l) necessary provisions to ensure that the service provider preserves documents as required by law and take suitable steps to ensure that its interests are protected in this regard even post termination of the services.

### **DELEGATION OF POWERS FOR APPROVING OUTSOURCING ACTIVITIES:**

Delegation of powers for approving outsourcing activities and reviewing the same shall remain with the Board of Directors.

### **MONITOR & CONTROL OF OUTSOURCED ACTIVITIES:**

The Company shall have in place a management structure to monitor and control its outsourcing activities. It shall ensure that outsourcing agreements with the service provider contain provisions to address their monitoring and control of outsourced activities:

- **Centralized Register:** A central record of all material outsourcing that is readily accessible for ~~review~~ by the Board and senior management of the Company shall be maintained. The records shall be updated promptly, and half yearly reviews shall be placed before the Board or Risk Management Committee.
- Regular audits by either the internal auditors or external auditors of the Company shall assess the adequacy of the risk management practices adopted in overseeing and managing the outsourcing arrangement, the Company compliance with its risk management framework and the ~~requirements~~ of these directions.
- **Annual Assessment:** The Company shall on annual review of the financial and operational condition of the service provider to assess its ability to continue to meet its outsourcing obligations. Such due diligence reviews, which can be based on all available information about the service provider shall highlight any deterioration or breach in performance standards, confidentiality and security, and in business continuity preparedness.
- **Termination:** In the event of termination of the outsourcing agreement for any reason in cases where the service provider deals with the customers, the same shall be publicized by displaying at a prominent place in the office, posting it on the web-site, and informing the customers so as to ensure that the customers do not continue to deal with the service provider.
- Certain cases, like outsourcing of cash management, might involve reconciliation of transactions between the Company, the service provider and its sub-contractors. In such cases, the Company shall ensure that reconciliation of transactions between the Company and the service provider (and/ or its sub-contractor), are carried out in a timely manner. An ageing analysis of entries pending reconciliation with outsourced vendors shall be placed before the Audit Committee of the Board and the Company shall make efforts to reduce the old outstanding items therein at the earliest.
- **Internal Audits:** A robust system of internal audit of all outsourced activities shall also be put in place and monitored by the Audit Committee of the Company.
- Regular audits by either the internal auditors or external auditors of the Company shall assess the adequacy of the risk management practices adopted in overseeing and managing the outsourcing arrangement, the Company's compliance with its risk management framework and the requirements of these directions.

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### **SELF ASSESSMENT OF EXISTING /PROPOSED OUTSOURCING ARRANGEMENTS:**

The concerned Departments, which have outsourced any activity, shall conduct a self-assessment of the existing/proposed outsourcing agreements within a time bound plan and bring them in line with the guidelines expeditiously. Similarly, all other Departments shall undertake immediate action with regards to the roles/ responsibilities assigned to them vis-à-vis the existing/ proposed outsourced activities.

### **OFF-SHORE OUTSOURCING OF FINANCIAL SERVICES:**

The Company while engaging service provider from foreign country, exposes country risk such as economic, social and political conditions and events in a foreign country that may adversely affect the Company. The Company shall take into account following:

- Closely monitor government policies and political, social, economic and legal conditions in countries where the service provider is based.
- Risk assessment prior to engagement and shall assess risk on a continuous basis.
- Establishment of sound procedures for dealing with country risk problems.
- Relevant confidentiality clauses and the governing law of the arrangement shall also be clear.
- The activities outsourced outside India shall be conducted in a manner so as not to hinder efforts to supervise or reconstruct the India activities of the Company in a timely manner.
- As regards the offshore outsourcing of financial services relating to Indian Operations, the Company shall additionally ensure that
  - ✓ Where the off-shore service provider is a regulated entity, the relevant off-shore regulator will neither obstruct the arrangement nor object to RBI inspection visits/ visits of Company's internal and external auditors.
  - ✓ The availability of records to management and the RBI will withstand the liquidation of either the offshore custodian or the Company in India.
  - ✓ The regulatory authority of the offshore location does not have access to the data relating to Indian operations of the Company simply on the ground that the processing is being undertaken there (not applicable if offshore processing is done in the home country of the Company).
  - ✓ The jurisdiction of the courts in the offshore location where data is maintained does not extend to the operations of the Company in India on the strength of the fact that the data is being processed there even though the actual transactions are undertaken in India and
  - ✓ All original records continue to be maintained in India.

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**GENERAL:**

The policy shall be reviewed at yearly intervals or as and when considered necessary by the Board of Directors of the Company.

<b>Proposed by:</b>	
<b>Name</b>	<b>Signature</b>
Mr. Aditya Baid, Chief Financial Officer	
<b>Reviewed by:</b>	
Mr. Aman Baid, Whole Time Director	

<b>Approving Authority</b>	Board of Directors
<b>Date of Approval/ Review</b>	<b>04<sup>th</sup> May 2022</b>

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