OUTSOURCING POLICY

Strategy and Business Development Department
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1. **Introduction:**

1.1 The banking industry has witnessed an all-round expansion and growth fundamentally driven by heightened competition, rapid technological advancements, financial inclusion, changing regulatory environment and consolidation etc etc. This rapid expansion and the growth in the industry, centralization and penetration of I.T system, the need to focus on core services and introduction of new services have influenced the need of outsourcing in the banking industry. Apart from cost savings and accessing specialist expertise not available internally, for achieving strategic aims and efficient delivery mechanism, outsourcing remains preferred destination for enabling perfection in selective business processes.

1.2 However, this outsourcing has resulted the banks being exposed to various risks.

1.3 Recognizing the need for outsourcing some of the selected activities by the banks, Reserve Bank of India has put in place comprehensive guidelines for addressing the risks that the banks would be exposed to on account of engaging any outsourcing agency.

1.4 The outsourcing policy of our bank based on RBI guidelines has been devised to ensure safeguarding the interest of the bank and the customers by adopting sound and responsive management practices through due diligence and management of risks arising
from outsourcing activities.

1.5 The guidelines are applicable to outsourcing arrangements entered into by the banks with the service provider located in India.

2. Scope of the Policy

The policy incorporates the criteria for selection of the activities that may be outsourced, risks arising out of outsourcing, management of these risks, delegation of powers, etc.

3. Definition of Outsourcing

For the purpose of this policy, Outsourcing shall refer to bank's 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 (including agreements for a limited period), that would normally be undertaken by the bank, now or in the future. The activities shall refer to outsourcing of financial services and shall not be applicable to technology related issues and activities not related to banking services like usage of courier, catering of staff, housekeeping and senatorial services, security of the premises, movement and archiving of records etc. Moreover, audit-related assignments to Chartered Accountant firms will continue to be governed by the instructions/policy as laid down by the Department of Banking Supervision of RBI.

3.1. Indicative list of activities that can be outsourced.

Financial services that can be outsourced by the bank may include application processing (loan origination, credit card), document processing, marketing and research, supervision of loans, data processing and back office related activities. An indicative list of activities that may be considered for outsourcing shall be as under:

- Opening, settlement and closing of accounts.
- Issue and processing of Cheques.
- Managing of Customer queries (Call Centers).
- Recruitment, Selection and Training of Personnel.
- Administration of Payroll and Taxation.
- Marketing of bank products.
- Cross Selling of Bank Products like Insurance and Mutual Funds.
- Credit Card and Debit Card customer acquisition / queries.
The above list is indicative only and not exhaustive. Additional activities within the definition of outsourcing can also be outsourced by the bank.

3.2. Activities that should not be outsourced.

Core management functions including Internal Audit, Compliance Function and Decision-making functions like determining compliance with KYC norms for opening deposit accounts, according sanction for loans (including retail loans) and management of investment portfolio shall not be outsourced by the bank.

3.3. Activities outsourced by the bank:

Presently the following services activities have been outsourced by the bank.

A) Credit Card acquisition issuance and the reconciliation:
The bank has an agreement with Venture Infotek Global Pvt. Ltd. Mumbai now M/s ATOS world line. The outsourced activities include debit card, credit card issuance management functions and merchant acquiring point of sale management functions.

The concerned department monitoring and managing outsourced business process is our card section.

B) Engagement of business correspondence for financial inclusion:
For implementation of financial inclusion plan for 1260 unbanked villages approved by the B.O.D’s on 28th February 2011 through B.C model engaging VLE’s as CCS’s as BC’s.

C) Engagement of FINO for transaction management for smart cards
The services covered are creations of Smart Cards, supply of POT machines maintaining of transactions generated through the operation of smart cards at the FINO server and then redirecting these transaction to technical support team of FID for upload on Finacle.

The bank has an agreement with FINO for the above service functions.
The concerned Department monitoring and managing the
outsourced function at B&C is our Financial Inclusion Department.

D) Asset Management & Salvage Solutions (ATMA)
The bank has an agreement with M/s Asset Management & Salvage Solutions (ATMA) for recovery and resolution of NPA and stressed assets for the State of Jammu and Kashmir.
Asset Monitoring and Information Department (AMID) is monitoring and managing this business process.

4. Risk arising out of outsourcing
Outsourcing of financial services exposes a bank to a number of risks which need to be evaluated and effectively managed & mitigated. The key risks that may arise due to outsourcing are:

- **Strategic Risks:** The service provider may conduct business on its behalf, which is inconsistent with the overall strategic goals of the bank.
- **Reputation Risk** - Poor service from the service provider, its customer interaction may not be consistent with the overall standards of the bank.
- **Compliance Risk** - Privacy, consumer and prudential laws may not be 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 bank itself preventing it from bringing the activity back in-house and contracts entered into wherein speedy exits would be prohibitively expensive.
- **Counter Party Risk** - Due to 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 bank to enforce the contract with the service provider.

**Concentration and Systemic Risk** - Due to lack of control of the bank over a service provider, more so when overall banking 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 bank which can trigger a systematic risk in the banking system as such.

The imperative therefore will be securing effective management by the bank for mitigation of this risk

5. **Management of risks**

To enable sound and responsive risk management practices for effective oversight, due diligence and management of risks arising from outsourcing activities, all concerned departments who decide to outsource a financial activity /service shall follow the below mentioned principles applicable to arrangements entered into by the bank with the service provider. A well defined structure of roles & responsibilities discussed hereinafter shall be in place to decide on the activities to be outsourced, selection of service provider, terms & conditions of outsourcing and monitoring mechanism etc.

5.1. **General Appraisal:**

- Prior approval from RBI shall not be required, whether the service provider is located in India or outside India.
While outsourcing a financial activity, Bank shall consider all relevant laws, regulations, guidelines and conditions of approval, licensing or registration.

In respect of outsourced services relating credit cards, RBI's detailed instructions contained in its circular on credit card activities vide DBOD.FSD.BC. 49/24.01.011/2005-06 dated 21st November 2005 & any future modifications in it would remain applicable.

Bank shall retain ultimate control of the outsourced activity, as outsourcing of any activity by the Bank does not diminish its obligations, and those of its Board and Senior Management, who have responsibility for the outsourced activity. Bank 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.

Outsourcing arrangements shall neither diminish the Bank’s ability to fulfill its obligations to customers and RBI nor impede effective supervision by RBI. Bank shall therefore, ensure that the service provider employs the same high standard of care in performing the services as would be employed by the Bank, if the activities were conducted within the Bank and not outsourced.

Bank shall not engage in such outsourcing that would result in its internal control, business conduct or reputation being compromised or weakened.

Bank shall ensure that the service provider does not impede or interfere with the ability of the Bank 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 Bank and the RBI to access all books, records and information available with the service provider should remain protected.

Bank shall continue to have a robust grievance redressal mechanism, which shall not be compromised on account of outsourcing. Outsourcing arrangements shall not affect the rights of the customer against the Bank, including the ability of the customer to obtain
redress as applicable under relevant laws. Since the customers are required to deal with the service providers in the process of dealing with the Bank, Bank shall incorporate a clause in the product, literature/brochure etc. stating that they may use the services of agents in sales/marketing etc. of the products.

- While outsourcing a related party (i.e. party within the Group/Conglomerate), Bank shall adopt the identical risk management practices as in case of service providers external to the Corporate group.

5.2. Appraisal of Service Provider:

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

- That the Service Provider, if it is not a subsidiary of the Bank, is not owned or controlled by any Director or Officer/Employee of the Bank or their relatives having the same meaning as assigned under Section 6 of the Companies Act, 1956.

- 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 Bank;
  - Ability to isolate the Bank’s information, documents and records, and other assets. This is to ensure that in adverse conditions, all documents, records of transactions and information given to service provider, and assets of the Bank, can be removed from the possession of the service provider in order to continue its business operations, or deleted, destroyed or rendered unusable or on the other hand, where service provider acts as an
outsourcing agent for multiple banks, care shall be taken to build strong safeguards so that there is no commingling of information/documents, records and assets.

5.3. Examination & Evaluation:

- In order to examine the capability on the above points an evaluation shall be conducted of all available information about the service provider, including but not limited to:-
  - 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;
  - Standards of performance including in the area of customer service;
  - Security and internal control, audit coverage, reporting and monitoring environment, Business continuity management;
  - External factors like political, economic, social and legal environment of the jurisdiction in which service provider operates and other events that may impact service providers operations and other events that may impact service performance;
  - Where ever possible, the Bank shall obtain independent reviews and market feedback on the service provider to supplement its own findings.

- Bank shall avoid undue concentration of outsourcing arrangements with a single service provider.

- Public confidence and customer trust in the Bank is a pre-requisite for the stability and reputation of the Bank. Hence the bank 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.

5.4. Materiality of outsourcing

During Annual Financial Inspections (AFI), RBI will review the implementation of the outsourcing policy guidelines to assess the quality of related risk management systems, particularly in respect of material outsourcing. Material outsourcing arrangements are those, which if disrupted have the potential to significantly impact the business operations, reputation or profitability. Keeping in view the above, once the financial activity to be outsourced and its service provider is selected; Bank shall assess its materiality of outsourcing based on:

- The level of importance to the Bank of the activity being outsourced;
- The potential impact of the outsourcing on the Bank on various parameters such as earnings, solvency, liquidity, funding capital and risk profile;
- The likely impact on the Bank’s reputation and brand value, and ability to achieve its business objectives, strategy and plans, if the service provider fails to perform the service;
- The cost of the outsourcing as a proportion of total operating costs of the Bank;
- The aggregate exposure to that particular service provider, in cases where the Bank outsource various functions to the same services provider.

5.5. Post Outsourcing Appraisal

In order to mitigate the risk of unexpected termination of the outsourcing agreement or liquidation of the service provider, Bank 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 Bank 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 Bank would be liable to its customers for any damage.

5.6. The Outsourcing Agreement.

The terms and conditions governing the contract between the bank and the service provider shall be carefully defined in written agreements and vetted by bank’s legal counsel on their legal effect and enforceability. Every such agreement shall address the risks and risk mitigation strategies. The agreement should be sufficiently flexible to allow the bank to retain an appropriate level of control over the outsourcing and the right to intervene with appropriate measures to meet legal and regulatory obligations. The agreement should also bring out the nature of legal relationship between the parties i.e. whether agent, principal or otherwise. Some of the key provisions of the contract would be:

- The contract should clearly define the activities that are being outsourced, including appropriate service and performance standards.
- The bank must ensure that it has the ability to access all books, records and information relevant to the outsourced activity available with the service provider.
• The contract should provide for continuous monitoring and assessment of the service provider by the bank, so that any necessary corrective measures are taken immediately.
• A termination clause and minimum periods to execute a termination provision, if deemed necessary, should be included.
• Controls to ensure customer data confidentiality and service providers’ liability in case of breach of security and leakage of confidential customer related information.
• Contingency plans to ensure business continuity.
• The outsourcing agreement should:
  o Provide for the prior approval/consent by the bank of the use of sub-contractors by the service provider for all or part of an outsourced activity.
  o Provide the bank 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 bank.
  o Include clauses to allow the Reserve Bank of India or persons authorized by it to access the bank’s documents, records of transactions, and other necessary information given to, stored or processed by the service provider, within a reasonable time.
  o Include clause to recognize the right of the Reserve Bank of India to cause an inspection to be made of a service provider of the bank and its books and account by one or more of its officers or employees or other persons.
  o Provide that the confidentiality of customer’s information shall be maintained even after the contract expires or gets terminated.
  o Provide for the preservation of documents and data by the service provider in accordance with the legal/regulatory obligation of the bank in this regard.

6. Roles and Responsibility
6.1. Board of Directors

The Board of the Bank, or a Committee of the Board to which
powers have been delegated shall be responsible, inter alia, for:-

- Approving a framework to evaluate the risks and materiality of all existing and prospective outsourcing and the policies that apply to such arrangements.
- Laying down appropriate approval structure for outsourcing depending on risks and materiality.
- Undertaking regular review of outsourcing strategies and arrangements for their continued relevance, safety and soundness, and
- Deciding on business activities of a material nature to be outsourced, and approving such arrangements.

6.2 Senior Management

The Senior Management of the Bank shall be responsible for:-

- Evaluating the risks and materiality of all existing and prospective outsourcing, based on the framework approved by the Board.
- Developing and implementing sound and prudent outsourcing policies and procedures commensurate with the nature, scope and complexity of the outsourcing.
- Reviewing periodically the effectiveness of policies and procedures.
- Communicating information pertaining to material outsourcing risks to the Board in a timely manner.
- Ensuring that contingency plans, based on realistic and probable disruptive scenarios, are in place and tested.
- Ensuring that there is independent review and audit for compliance with set policies.

6.3. (Departments at CHQ that intend to outsource/ have outsourced an activity)

- Finalize the service activity to be outsourced. Inputs from S&BD Division, CHQ should be sought to ascertain about whether the activity that intended to be outsourced is allowed under regulatory norms, also whether it is covered under the outsourcing activities as defined in the Banks’ outsourcing policy.
- Defining terms & conditions of outsourcing taking into account the risk and materiality involved.
- Selection/ Short listing of the Service provider/s after carrying out due diligence of service providers.

- Putting up Outsourcing proposal to Risk Management Department for evaluation of risk and materiality.

- Putting up the proposal to Operational Risk Management Committee for approval.

- Providing information to Compliance Department, S&C Department, KYC /AML Department, Risk Department & S&BD Division CHQ about all the activities outsourced by them.

- Implementation of agreement with service providers of activities outsourced by them.

- Informing S&BD Division and all other concerned Departments in case of termination of an outsourced arrangement along with reasons thereof.

- All outsourcing agreements to be got vetted by our Law department at CHQ, Srinagar

6.4. Roles of individual Divisions / Departments at CHQ.

- **S&BD Division:**
  - Developing Bank’s Outsourcing policy
  - Putting up the policy for review of the Board at specified timelines.
  - Providing inputs to individual Divisions / Departments, who want to outsource any activity, about whether the activity is allowed to be outsourced under regulatory norms/ Banks’ policy & also whether it is covered under the outsourcing activities as defined in the Banks’ outsourcing policy.
  - Informing IBA, along with reasons, about termination of any outsourcing agreement. The Division shall also ensure that Corporate Communication Department publicizes the fact of termination for information of general public.

- **Risk Management Deptt.:**
  - Evaluating the risks and materiality of all existing and prospective outsourcing activities, based on the Bank’s outsourcing policy.
- Communication of information pertaining to material outsourcing risks to the Board in a timely manner.
- Ensuring that contingency plans, based on realistic and probable disruptive scenarios, are in place and tested.
- Undertaking periodic review of outsourcing arrangements to identify new material outsourcing risk as they rise.

**S&C Department:**
- All Divisions/ Departments at CHQ outsourcing a financial activity shall inform about the performance of the outsourced financial activity to S&C Deptt on half yearly basis in April & October. S&C Department shall place a consolidated note before the Board.
- Audit the financial activities being outsourced by the Bank and put up findings to Board of Directors on annual basis.
- Submit compliance certificate to RBI about outsourced activities by any department of the bank after its approval/vetting by the Board of Directors.
- Submit Board approved consolidated Compliance Certificate to RBI on annual basis giving the particulars of outsourcing contracts, the prescribed periodicity of audit by Internal/ External Auditors, major findings of the audit and action taken through Board.

**Customer Care Department:**
To designate one of their officers as Grievance redressal officer for outsourcing and ensuring that one officer is designated as Grievance redressal officer at each of the Zonal offices of the Bank. The Department shall also be responsible for publicizing name, location and contact number of all Grievance redressal officers.

**Law Deptt.:** Responsible for vetting of outsourcing agreements to be signed / executed by the bank with the service provider.
Also legal counseling in case of any disputes with the service provider

**Compliance Department**
- Maintenance of central database of all financial activities outsourced by the Bank.

**KYC/ AML Department:**
- Reporting Currency Transactions and Suspicious Transactions to FIU or any other competent authority in respect of the bank’s customer related activities carried out by the service
providers.

*Corporate Communication Department:*
Corporate Communication Department Shall be responsible for giving due publicity through print media about the fact of termination of any outsourced arrangement for the information of the General Public.

7) **Accounting & expenditure:**
- The expenditure incurred on outsourcing the financial activity shall be debited to the relevant sub Head of the General Ledger (outsourcing of financial services).
- The concerned department outsourcing the activity shall in consultation with Finance Department (BST) take up this issue with T&ISD for opening of the relevant P&L Head.
- The sub-code so created shall also be intimated to S&C Department.
- The Procedure shall be adopted for all existing and fresh financial activities.

8) **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 (this is in compliance to the directions of Board, Board resolution No.7 date June 15, 2010)
The expenditure / cost to be incurred on any activity of outsourcing shall be as per the existing powers on cost / expenditure for such type of activity.

9) **Responsibilities of DSA/DMA/Recovery Agents.**
Code of conduct for Direct Sales Agents formulated by the Indian Banks’ Association (IBA), bank’s own codes for Recovery Agents, bank’s code for collection of dues & extant RBI instructions on Fair Practice Code for lending should be strictly enforced by the Bank. The Bank shall ensure that the Direct Sales Agents/Direct Marketing Agents/Recovery Agents are properly trained to handle with care and sensitivity, their responsibilities, particularly aspects like soliciting customers, hours of calling, privacy of customer information and conveying the correct terms and conditions of the products on offer etc.
The bank and its agents shall not resort to intimidation or harassment of any kind either verbal or physical against any person
in their debt collection efforts, including acts intended to humiliate publicly or intrude the privacy of the debtors’ family members, referees and friends, making threatening and anonymous calls or making false and misleading representations. Concerned Departments shall ensure that list of all recovery agents is displayed on the Bank’s website.

10) **Redressal of Grievances related to Outsourced services.**

- An official in Customer Care Department, CHQ shall be designated as Grievance Redressal Officer for outsourced activities. Similarly an officer at each Zonal Office shall also be designated as Grievance Redressal Officer for outsourced activities. The name and contact number of the designated Grievance Redressal officers shall be made known and widely published.
- Customer care Department, CHQ shall ensure that these officers are designated at each Zonal Office and their names/ contact numbers widely publicized.
- The designated officer shall ensure that genuine grievances of customers are forwarded to concerned Department and follow-up on remedial actions taken in this regard.
- Generally, a time limit of 30 days shall be given to the customers for preferring their complaints/grievances. The grievance redressal procedure of the bank and the time frame fixed for responding to the complaints shall be placed on the bank's website.
- If a complainant does not get satisfactory response from the bank within 60 days from the date of lodging the complaint, the complainant will have the option to approach the office of the concerned Banking Ombudsman for redressal of his/her grievance/s.

11) **Centralized List of Outsourced Agents.**

- If the service provider’s services are terminated by the bank, IBA will be informed with reasons for termination. IBA would be maintaining a caution list of such service providers for the entire banking industry for sharing among banks.
- The concerned Department which terminates an outsourced arrangement shall inform S&BD Division & other concerned Departments about the termination of the arrangement along with reasons thereof. S&BD Division shall forward the information to IBA.
12) Off-shore outsourcing of Financial Services.

- The engagement of service providers in a foreign country exposes a bank to country risk - economic, social and political conditions and events in a foreign country that may adversely affect the bank. Such conditions and events could prevent the service provider from carrying out the terms of its agreement with the bank. To manage the country risk involved in such outsourcing activities, the bank shall take into account and closely monitor government policies, political, social, economic and legal conditions in countries where the service provider is based, during the risk assessment process and on a continuous basis, and establish sound procedures for dealing with country risk problems. This includes having appropriate contingency and exit strategies. In principle, arrangements shall only be entered into with parties operating in jurisdictions generally upholding confidentiality clauses and agreements. The governing law of the arrangement shall also be clearly specified.

- 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 bank in a timely manner.

- The outsourcing related to overseas operations of the bank would be governed by both these guidelines and the host country guidelines. Where any differences arise, the more stringent of the two would prevail. However, where there is any conflict, the host country guidelines would prevail.

13) Outsourcing within a Group/Conglomerate.

The risk management practices to be adopted by the bank while outsourcing to a related party (i.e. party within the Group/Conglomerate) would be identical to those specified in these guidelines.

14) 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.

15). Review of the Policy.

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