

Outsourcing FAQs

1. What is 'Outsourcing'?

Ans 1. 'Outsourcing' is defined as the NBFC's use of a **third party** (either an affiliated entity within/external to the corporate group) to perform activities on a continuing basis that would normally be undertaken by the NBFC itself.

(Refer: RBI/2017-18/87 DNBR.PD.CC.No.090/03.10.001/2017-18 - Directions on Managing Risks and Code of Conduct in Outsourcing of Financial Services by NBFCs) - (Please visit RBI Website for the current direction)

2. Why do organizations outsource activities?

Ans 2. Organizations outsource activities to reduce costs, tap into specialized skills, manage risks better, logistically convenient and improve efficiency. By doing so, they can enhance customer experience and drive business growth. Ultimately, outsourcing allows NBFCs to do more with less and to put their focus on core business area.

3. Do NBFCs also outsource activities? If Yes? Give examples of Financial Outsourcing and IT Outsourcing?

Ans 3. Yes, NBFC also outsource activities to the third party.

Some examples are-:

Financial Outsourcing: Sourcing, Collection, Fraud investigation, Customer Care center etc.

IT Outsourcing: Software Development, Cybersecurity and Cloud Service etc.

4. Are there any Outsourcing related specific regulations to be complied with?

Ans 4. Yes, below mentioned regulations needs to be complied during the outsourcing agreement-

Financial Outsourcing: RBI/2017-18/87 DNBR.PD.CC.No.090/03.10.001/2017-18 - Directions on Managing Risks and Code of Conduct in Outsourcing of Financial Services by NBFCs (Please visit RBI Website for the current direction)

IT Outsourcing: RBI/2023-24/102 DoS.CO.CSITEG/SEC.1/31.01.015/2023-24 - Master Direction on Outsourcing of Information Technology Services (Please visit RBI Website for the current direction)

5. Do we have any internal Policy or Process pertaining to Outsourcing?

Ans 5. Yes, we have a well-defined policy(Board approved) and process pertaining to outsourcing, which is aligned with the **Reserve Bank of India's (RBI)**. Our policy outlines the **scope, risk management, and governance framework**. It also ensures that outsourcing arrangements do not compromise regulatory compliance, data security, and customer confidentiality. Our outsourcing policy is reviewed and updated **periodically** to ensure adherence to RBI guidelines and industry best practices.

(Refer: Outsourcing Policy and SOP)

6. How do you know if an activity would fall within definition of outsourcing?

Ans 6. As per the definition defined in **RBI/2017-18/87 DNBR.PD.CC.No.090/03.10.001/2017-18**, below are the mentioned criteria which **all** are required to be fulfilled for an activity to fall under outsourcing-

- a) Use of a 3rd party (either an affiliated entity within a corporate group or an entity that is external to the corporate group)

AND

- b) 'Continuing basis' includes agreements for a limited period

AND

- c) That would normally be undertaken by the NBFC itself, now or in the future.

(Refer: **RBI/2017-18/87 DNBR.PD.CC.No.090/03.10.001/2017-18 - Directions on Managing Risks and Code of Conduct in Outsourcing of Financial Services by NBFCs**) (Please visit RBI Website for the current direction)

7. What activities cannot be outsourced as per RBI regulations?

Ans 7. RBI has identified specific cases which can't be outsource to a third party such as **Internal Audit, Strategic and Compliance functions** and **decision-making functions** such as determining compliance with KYC norms for opening deposit accounts, according sanction for loans and management of investment portfolio. However, for NBFCs in a group, these functions may be outsourced within the group but with **the Board approval** Moreover, the **customers shall be informed** specifically about the company which is actually offering the product/ service. . Further, while internal audit function itself is a management process, the internal auditors can be on contract.

(Refer: **RBI/2017-18/87 DNBR.PD.CC.No.090/03.10.001/2017-18 - Directions on Managing Risks and Code of Conduct in Outsourcing of Financial Services by NBFCs**) (Please visit RBI Website for the current direction)

8. Whose approval is required prior to outsourcing any activity?

Ans 8. Business/Support functions to identify the activity that needs to be outsourced and check if the activity is pre-approved for outsourcing.

If it is **pre-approved**, then proposer to seek approval from respective **Senior Management Team (SMT)** or their **Directs** only.

If it is **not pre-approved**, then firstly, there should be a clearance from **respective SMT or their Directs** on the activity. No action to be taken if there is no clearance from Business/Function head. Once the activity is approved for outsourcing by Business/Function head, the proposer has to present the case to **Outsourcing Risk Committee (ORC)** for their consideration and final decision.

(Refer: Outsourcing Policy and SOP)

9. Outsourcing Risk Management Governance

Ans 9. Below mentioned are the processes for Outsourcing Risk Management Governance:-

- a. Onboarding Due diligence
- b. Valid legal agreement
- c. Periodic performance reviews.
- d. Annual reviews.
- e. Service Provider Audits/ Reviews.

10. Does it require to obtain approval of RBI for outsourcing financial service?

Ans 10. No, NBFCs which desire to outsource financial services would **not** require prior approval from **RBI**. However, such arrangements would be subject to on-site/ off- site monitoring and inspection/ scrutiny by RBI

(Refer: RBI/2017-18/87 DNBR.PD.CC.No.090/03.10.001/2017-18 - Directions on Managing Risks and Code of Conduct in Outsourcing of Financial Services by NBFCs)- (Please visit RBI Website for the current direction)ss

11. What are the instances in which the agreement can be terminated/Discontinued for Outsourcing with the Service Provider? What necessary steps are to be taken thereafter?

Ans 11. Below mentioned are the reason for the termination/ discontinued -:

1. Adverse reasons observed by Business/ Functions (e.g. fraud, data theft, regulatory breach etc.)
2. Basis mutual agreement between the Business/ Function and the respective Service Provider
3. Unsatisfactory Performance

In case of termination, Termination letter will be issued any time during the year of termination. Business/ Functions have to ensure that all the material documents, confidential documents or any other ABC assets are taken back from the Service Provider.

In case of deactivation, Business/Functions to intimate Operations and Finance to deactivate Service Provider in Operations core system by submitting the filled "Form for Blocking Service Provider Code" . Finance team will further intimate the

same to marketing team in order to ensure that the deactivated or termination list is updated on the ABCL website within 5 working days and later the same shall be publicized by displaying at a prominent place in the branch and informing the customers so as to ensure that the customers don't continue to deal with the service provider

Finance team will share pay-out MIS for that respective service provider for 1 year to Operations and Business SPOC. Operations team will intimate other LOB's/Business SPOC via email asking them to confirm if the SP code needs to be deactivated and provide a timeline of 15 working days to revert.

(Refer Outsourcing Policy and SOP)

12. What are the details which are to be submitted to ORM by Service Provider/Business Team before sub-contracting the assignment?

Ans 12. Details which is required from Service Provider/Business Team before subcontracting in the below attached excel format along with relevant documents:

- a. Activity Outsourced
- b. Description of the activity outsourced
- c. Sub-contractor profile - Name, Address, Entity type, Key contact person details – name, phone/ mobile and email id
- d. Whether formal agreement in place?
- e. Agreement start and End date
- f. Inherent risk in activity outsourced along with controls in place
- g. Sub-contractor monitoring mechanism



LSP Format.xlsx

(Refer ABC-OP-PD-XX_Sub-contracting activities by LSPs)

13. List of modifications/changes which required approval from ORC?

Ans 13. Prior approval to be sought by service providers from ABC for every new proposal as stated below-

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Existing Service Provider with existing sub-contracting arrangements

For all live Service Provider arrangements, Business to collect list of all activities outsourced to sub-contractors by Service Provider with following details in excel format along with relevant documents -

- a) Activity Outsourced

- b) Description of the activity outsourced
- c) Sub-contractor profile - Name, Address, Entity type, Key contact person details – name, phone/ mobile and email id
- d) Whether formal agreement in place? *(Note- (i). ABC may mandate inclusion of certain mandatory clauses from time to time and (b). if required, ABC may request copy of agreement for reference and use)*
- e) Agreement start date
- f) Agreement End date
- g) Inherent risk in activity outsourced along with controls in place
- h) Sub-contractor monitoring mechanism.

Above list to be tabled and presented in Outsourcing Risk Committee (ORC) for One-Time review and approval.

Category 2

New Service Providers with existing sub-contracting arrangements

One-time prior approval to be sought by **Service Provider** from ABC for all sub-contracting arrangements at the time of onboarding the **Service Provider**

Business to collect list of all activities already outsourced to sub-contractors by **Service Provider** with following details in excel format along with relevant documents -

- a) Activity Outsourced
- b) Description of the activity outsourced
- c) Sub-contractor profile - Name, Address, Entity type, Key contact person details – name, phone/ mobile and email id
- d) Whether formal agreement in place? *(Note- (i).ABC may mandate inclusion of certain mandatory clauses from time to time and (b). if required, ABC may request copy of agreement for reference and use)*
- e) Agreement start date
- f) Agreement End date
- g) Inherent risk in activity outsourced along with controls in place
- h) Sub-contractor monitoring mechanism.
- i) Any other concerns/ comments/ remarks for ORC

Above list to be tabled and presented in Outsourcing Risk Committee (ORC) for One-Time review and approval

Category 3

Existing Service Providers proposing –

- a) New sub-contracting arrangements
- b) Change in existing sub-contracting arrangement (including nature of activity outsourced, process/ controls, change in management or any other key change impacting ABC or its customers)
- c) Change of sub-contractor

Prior approval to be sought by **Service Provider** from ABC for every new proposal as stated above

Service Provider to propose and Business to collect below information for above stated proposals in excel format along with relevant documents -

- a) Activity Outsourced
- b) Description of the activity outsourced
- c) Sub-contractor profile - Name, Address, Entity type, Key contact person details – name, phone/ mobile and email id
- d) Whether formal agreement in place? *(Note- (i).ABC may mandate inclusion of certain mandatory clauses from time to time and (b). if required, ABC may request copy of agreement for reference and use)*
- e) Agreement start date
- f) Agreement End date
- g) Inherent risk in activity outsourced along with controls in place
- h) Sub-contractor monitoring mechanism.
- i) Any other concerns/ comments/ remarks for ORC

Above information to be tabled and presented in Outsourcing Risk Committee (ORC) for review and approval

(Refer ABCL OP-PD-XX_Sub-contracting activities by LSPs)

14. Whether it is necessary to have contingency plan in place?

Ans 14. NBFCs need to ensure that the service provider periodically tests the Business Continuity and Recovery Plan and may also consider occasional joint testing and recovery exercises with its service provider.

In establishing a viable contingency plan, NBFCs shall consider the **availability of alternative service providers** or the possibility of bringing the outsourced activity back in house in an emergency

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15. Can ABCL continue the engagement with the discontinued/terminated vendor?

Ans 15. a) If service provider is providing services to multiple LOBs with ABCL and is discontinued on **mutual basis** from one LOB, then it can continue its business with other LOBs and Service Provider code will continue to remain active in core systems.

b) Termination of service provider from business/support function due to adverse reasons (e.g. **fraud, data theft, regulatory breach**, etc.) will lead to termination of that Service Provider from **all** the Business/ Functions if working across different LOB's and Service Provider code has to be blocked after all the pending bills are cleared.

(Refer Outsourcing Policy and SOP)

16. Whether a service provider can provide his service to ABC after the mutual discontinuation?

Ans 16. In case of mutual discontinuation, the service provider code has to be blocked in core systems. In case the service provider wishes to serve ABC in future the new service provider onboarding process is to be followed

(Refer Outsourcing Policy and SOP)

17. What are the criteria for identifying a “Material Service Provider”?

Ans 17. Service Providers fulfilling below listed criteria shall be considered as ‘Material Service Providers’ -:

Sr. No.	Criteria	In Scope
1.	Where Total annual cost of activity is equal to or greater than 10% of Total annual outsourcing cost.	Service providers contributing to 80% cost.
2.	Where Total annual cost of activity is less than 10% of Total Annual outsourcing cost.	Top 5 or All Service providers (whichever is lower).
3.	Lending Service Providers (LSPs)/ Digital Lending Partners (DLPs)	All active LSPs/ DLPs

(Refer Outsourcing Policy and SOP)

18. What are responsibilities of Business or Support Functions proposing to outsourcing an activity?

Ans 18. Outsourcing activities which have been undertaken by **Business or Support Functions** will be responsible for Risk assessment, vendor due diligence, on boarding process, information security assessment, etc.

19. Who is responsible for risk management pertaining to outsourced activities?

Ans 19. While the activity can be outsourced to service provider, the risks associated with the outsourced activity remains with the outsourcing Business and Support Function. Business and Support Functions outsourcing the activity are primarily responsible for identifying and managing all risks associated with the outsourced activity.

20. List of activities to perform for evaluating the capability of Service Provider?

Ans 20. Appropriate due diligence shall be performed to assess the capability of the service provider to comply with obligations in the outsourcing agreement

Due diligence shall involve an evaluation of all available information about the service provider

1.Past experience and competence to implement and support the proposed activity over the contracted period

2. Financial soundness and ability to service commitments even under adverse conditions
3. Business reputation and culture, compliance, complaints and outstanding or potential litigation
4. Security and internal control, audit coverage, reporting and monitoring environment, business continuity management
5. Ensuring due diligence by service provider of its employees.

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For more information, please reach out:

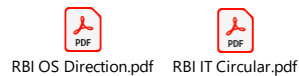
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Annexure- I

1. Policy



2. RBI Circular



3. SOP

