



OUTSOURCING POLICY

Updated April, 2017

Strategy and Business Development Department

Table of Contents.

- 1. Introduction**
- 2. Scope of the Policy**
- 3. Definition of Outsourcing**
 - 3.1. Indicative list of activities that can be outsourced**
 - 3.2. Activities that should not be outsourced.**
 - 3.3. Activities outsourced by the Bank.**
- 4. Risk arising out of outsourcing**
- 5. Management of risks**
 - 5.1. General Appraisal.**
 - 5.2. Appraisal / Selection of the Service Provider.**
 - 5.3. Risk Examination, Evaluation and Measurement**
 - 5.4. Materiality of Outsourcing**
 - 5.5. Post Outsourcing Appraisal / Monitoring and Control of Outsourced Activities.**
 - 5.6. The Outsourcing Agreement.**
 - 5.7. Service Level Agreements (SLAs) and Performance Metrics**
 - 5.8 Periodic Risk Assessment , Audit and Reviews**
 - 5.9 Business Continuity Planning**
 - 5.10 Confidentiality and security**
- 6. Roles and Responsibility**

- 6.1. Board of Directors**
- 6.2. Senior Management**
- 6.3. Departments at CHQ (General)**
- 6.4. Individual Departments**
- 7. Accounting & Expenditure**
 - 7.1 Reconciliation of Transactions**
- 8. Delegation of Powers for approving Outsourcing Activities**
- 9. Responsibilities of DSA/DMA/Recovery Agents.**
- 10. Redressal of Grievances related to Outsourced services.**
- 11. Centralized List of Outsourced Agents.**
- 12. Off-shore outsourcing of Financial Services.**
- 13. Outsourcing within a Group/Conglomerate.**
- 14. Self Assessment of Existing / Proposed Outsourcing Arrangements.**
- 15. Review of the Policy.**

1. Introduction:

- 1.1** The rapid expansion and the growth in the banking industry, centralization, technological transformation, the need to focus on core services and introduction of new services have influenced the need of outsourcing in the banks. 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 bank with the service provider/s located in India & foreign service provider.

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. The policy shall apply to activities outsourced to service providers and *mutatis mutandis* to activities subcontracted by the service providers.

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 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.
- Sourcing leads generation.
- Cash management & collections.

- **Technology infrastructure management, maintenance & support.**
- **Application development, maintenance and testing.**

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) Point of Sale (POS) & Credit/Debit Card acquisition issuance and the reconciliation:

The bank has an agreement with:

Worldline Mumbai and MRL Posnet, Chennai for installation of POS and backend support,

Master Card Technology Pvt. Ltd. Pune for Credit Card issuance and back end support,

Oberthur Technologies Pvt. Ltd. Noida for Debit/Credit Card personalization, and

Insolutions Global Pvt. Ltd. Mumbai for Debit Card reconciliation.

The concerned department for Management, Monitoring and Control of the outsourced activity/function is Card Issuing & Acquiring Department CHQ.

b) Engagement of Business Correspondents (BCs) for financial inclusion:

The bank has engaged 942 Business Correspondents (BCs) for customer interface and providing other banking services under Financial Inclusion Plan.

The concerned department for Management, Monitoring and Control of the outsourced activity/function is Financial Inclusion Department CHQ.

c) ATM Management Services

The bank has an agreement with M/S Diebold Systems Private Ltd, Mumbai for outsourcing of Cash Management Services of ATMs. Presently out of 1090 ATMs, the bank has outsourced 291 ATMs to M/S Diebold Systems Private Ltd for management of ATMs.

The concerned department for Management, Monitoring and Control of the outsourced activity/function is Strategy & Business Development Division, CHQ.

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.
- **Access Risk** – An access risk arises when one or more actions or permissions that, when available to a single user (or single role, profile, or HR Object), creates the potential for fraud or unintentional errors.

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 systemic 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 which 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 & subsequent guidelines/modifications thereof shall be 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 of Directors 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 / Selection 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 2 (77) of 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 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.

- **A multiple service provider relationship/contract (where two or more service providers collaborate to deliver an end to end solution to the Bank) shall be possible under following scenarios:-**
 - **One service provider shall be designated as the 'Lead Service Provider', to manage the other service providers**
 - **The concerned department of the Bank may independently enter into stand-alone contracts with each service provider.**

The concerned department of the Bank that selects from the above or any other contractual relationship, however, shall remain responsible for understanding and monitoring the control environment of all service providers that have access to the bank's systems, records or resources.

5.3. Risk Examination, Evaluation and Measurement:

- **While negotiating / renewing an outsourcing arrangement, the concerned department shall perform due diligence to assess the capability of the technology service provider to comply with obligations in the outsourcing agreement. 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;**
 - **Business continuity arrangements in case of technology outsourcing;**
 - **Due diligence for sub-service providers;**
 - **Risk management, framework, alignment to applicable international standards on quality / security / environment, etc., may be considered;**
 - **Secure infrastructure facilities;**
 - **Employee training, knowledge transfer;**
 - **Reliance on and ability to deal with sub-contractors; Where ever possible, the Bank shall obtain independent reviews and market feedback on the service provider to supplement its own findings. It should be ensured that information used for due diligence is not more than 12 months old.**
- **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. While selecting a service provider, the concerned

department shall identify functions to be outsourced along with necessary controls and solicit responses from prospective bidders via an RFP process. Proposals submitted by service providers shall be evaluated by the concerned department in light of their needs. Any differences in the service provider proposals as compared to the solicitation shall be analyzed carefully. Due diligence undertaken during the selection process shall be documented and re-performed periodically as part of the monitoring and control processes of outsourcing.

All the concerned departments who decide to outsource a financial activity /service shall perform risk evaluation prior to entering into an outsourcing agreement and should be reviewed periodically in the light of known and expected changes, as part of the strategic planning or review processes.

The framework for risk evaluation should include the following steps:

- **Identification of the role of outsourcing in the overall business strategy and objectives, and inter-linkages with bank's strategic goals**
- **Comprehensive due diligence on the nature, scope and complexity of the outsourcing to identify the key risks and risk mitigation strategies e.g. in case of technology outsourcing, state of security practices and control environment offered by the service provider is a key factor**
- **Analysis of the impact of such arrangement on the overall risk profile of the bank, and whether adequate internal expertise and resources exist to mitigate the risks identified**
- **Analysis of risk-return on the potential benefits of outsourcing vis-à-vis the vulnerabilities that may arise.**

The concerned department should evaluate vendor managed processes or specific vendor relationships as they relate to information systems and technology. All outsourced information systems and operations may be subject to risk management and security and privacy policies that meet the Bank's own standards and also those mentioned in the extant Information security Policy of the Bank.

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.

Where the Bank relies on third party employees to perform key banking functions such as applications processing, verifications, approvals, etc., on a continuous basis, such outsourcing shall also be construed as 'material', whether or not the personnel are located within the premises of the Bank.

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:

- **Size and scale of operations which are outsourced.**
- **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 cost of outsourcing as a proportion of total operating costs, 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;**
- **Nature of functions outsourced**
- **Nature and extent of data sharing involved. For e.g., where outsourcing involves sharing of customer data, the engagement may be 'material'.**
- **Degree/extent of control and oversight exercised by the bank on vendor managed processes. For e.g., the ability of bank staff to design and influence day to day operations and decision making, whether bank staff is able to exercise sufficient oversight over the day to day activities performed by outsourced agencies**
- **Degree of control exercised by banks on outsourced entities, regardless of a conglomerate entity structure**
- **Impact on data privacy and security, e.g. whether access to customer data has to be extended to staff of the service provider.**

- **Whether the bank has adequate flexibility to switch service providers, so that the risk of being attached to a single service provider is adequately mitigated, and the aggregate exposure to a single service provider.**
- **The aggregate exposure to that particular service provider, in cases where the Bank outsource various functions to the same services provider.**

The concerned departments of the Bank outsourcing any activity shall undertake a periodic review of their outsourced processes to identify new outsourcing risks as they arise. For e.g. when the service provider has further subcontracted work to other service providers or has undergone a significant change in processes, infrastructure, or management.

The materiality of outsourcing arrangement shall be considered both at the level of the Bank as a whole and on a consolidated basis, i.e. Bank as a whole together with its branches and entities/subsidiaries under its control.

5.5. Post Outsourcing Appraisal / Monitoring and Control of outsourced activities

In order to mitigate the risk of unexpected termination of the outsourcing agreement or liquidation of the service provider and in order to establish a structure for management and control of outsourcing the concerned department of the 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.**

- **Maintain a central record of all material outsourcing, including technology outsourcing and sub service provider relationships, that is readily accessible for review by the Board and senior management of the bank. The records should be updated promptly and half yearly reviews should be placed before the Board.**
- **Review, at least on an annual basis, 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 shall be based on all available information about the service provider should highlight any deterioration or breach in performance standards, confidentiality and security, and in business continuity preparedness.**
- **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 and pro-actively notify RBI in the event of any adverse developments or non-compliance with legal & regulatory requirements in an outsourcing arrangement or breach of security or leakage of confidential customer related information. In these eventualities, the Bank would be liable to its customers for any damage.**
- **In the event of outsourcing of technology operations, subject the same to enhanced and rigorous change management and monitoring controls since ultimate responsibility and accountability rests with the bank. The concerned department should control the management of user ids created for use of external vendor personnel. As a contingency measure, it should also be endeavor of the department to develop, over a period of time, reasonable level of skills/knowledge in various technology related areas like system administration, database administration, network architecture and administration, etc., to effectively engage with the vendors and also to take over these functions in the event of any contingency.**

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 identified at the risk evaluation and due diligence stages. The agreement should provide for periodic renewal, re-negotiation and 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 and address risks and mitigation strategies identified at the risk evaluation and due diligence stages. The contract should clearly define the roles and responsibilities of the parties to the contract and include suitable indemnification clauses. Any 'limitation of liability' consideration incorporated by the service provider should be assessed in consultation with the legal department of the bank.

Some of the key provisions of the contract would be:

- The contract shall clearly define the activities that are being outsourced, including appropriate service and performance standards. Key performance metrics should be defined for each activity to be outsourced, as part of the overall Service Level Agreement.**
- 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. For technology outsourcing, requisite audit trails and logs for administrative activities should be retained and accessible to the bank based on approved requests.**
- 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 and testing thereof, to ensure business continuity.**

▪ **The outsourcing agreement should :**

- **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. Before giving its consent, bank shall review the subcontracting arrangements and ensure that these arrangements are compliant with the extant guidelines on outsourcing. The bank shall retain the ability of similar control and oversight over the sub service provider as the service provider.**
- **Specify the resolution process, the event of default, indemnities involved and the remedies and recourse of the respective parties to the agreement.**
- **Include choice of law provisions, based on the regulations as applicable to the bank. The agreement should be tailored to provide for specific risks relating to cross border businesses and operations, data privacy and ownership aspects, among others.**
- **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.**
- **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. This includes information maintained in paper and electronic formats.**
- **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.**
- **Provide that the confidentiality of customer's information shall be maintained even after the contract expires or gets terminated.**
- **Contract should include conditions for default termination / early exit option for contracts. This should include circumstances when the service provider undergoes a change in ownership, becomes insolvent or goes under liquidation, received judicial**

indictment (whether within India or any other location), or when there has been a breach of confidentiality, security, or demonstrable deterioration in quality of services rendered.

- **In all cases of termination (early or otherwise), an appropriate handover process for data and process should be agreed by the parties to the contract.**
- **Mandate controls to ensure customer data confidentiality and service providers' liability in case of breach of security and leakage of confidential customer related information e.g. use of transaction-enabled mobile banking channels necessitates encryption controls to ensure security of data in transmission.**
- **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.**

5.7. Service Level Agreements (SLAs) and performance metrics;

- **The department of the bank outsourcing any activity shall include SLAs in the outsourcing contracts to agree and establish accountability for performance expectations. SLAs must clearly formalize the performance criteria to measure the quality and quantity of service levels.**
- **The concerned department shall develop the following towards establishing an effective oversight program:**
 - **Document that defines the SLA program**
 - **SLA monitoring process**
 - **Recourse in case of non-performance**
 - **Escalation process**
 - **Dispute resolution process**
 - **Conditions in which the contract may be terminated by either party.**

For outsourced technology operations, specific metrics should be defined around the service availability, business continuity and transaction security, in order to measure services rendered by the external vendor organization. The SLA and performance metrics for outsourcing activities in technology operations should be in accordance with the latest Information Technology Operations /Security Policy of the Bank.

Performance expectations, under both normal and contingency circumstances, should be defined. Provisions should be in place for

timely and orderly intervention and rectification in the event of substandard performance by the service provider.

5.8. Periodic Risk Assessment, Audit and Reviews

Outsourcing should not impede or interfere with the ability of the Bank or the Regulator in performing its supervisory functions and objectives.

The concerned department should conduct pre- and post- outsourcing implementation reviews. It should also review its outsourcing arrangements periodically to ensure that its outsourcing risk management policies and procedures & guidelines, are effectively complied with.

The concerned department should, at least on an annual basis, review the financial and operational condition of the service provider to assess its ability to continue to meet outsourcing obligations. Such due diligence reviews, which should be based on all available information about the service provider including reports by the service provider's external auditors, should highlight any deterioration or breach in performance standards, confidentiality and security, and in business continuity preparedness.

The department should periodically commission independent audit and expert assessments on the security and control environment of the service provider. Such assessments and reports on the service provider should be performed and prepared by the bank's internal or external auditors, or by agents appointed by the bank.

Such reviews should take adequate cognizance of historical violations or issue remediation during previous audits and assessments. Copies of previous audits and assessments should be shared during RBI inspections.

5.9. Business Continuity Planning

The concerned department should ensure that their business continuity preparedness is not adversely compromised on account of outsourcing. The department should adopt sound business continuity management practices as issued by RBI & as per Business Continuity Policy of the bank and seek proactive assurance that the outsourced service provider maintains readiness and preparedness for business continuity on an ongoing basis.

The department, while framing the viable contingency plan, should consider the availability of alternative service providers or the possibility of bringing the outsourced activity back-inhouse in an emergency (for example, where number of vendors for a particular service is extremely limited) and the costs, time and resources that would be involved and take suitable preparatory action.

5.10. Confidentiality and Security

The outsourcing department should be proactive to identify and specify the minimum security baselines to be adhered to by the service providers to ensure confidentiality and security of data. This is particularly applicable where third party service providers have access to personally identifiable information and critical customer data.

The department shall take the following steps to ensure that risks with respect to confidentiality and security of data are adequately mitigated:

- **Address, agree and document specific responsibilities of the respective parties in outsourcing to ensure adequacy and effectiveness of security practices, including identifying obligations and liability in the event of a breach or default.**
- **Discuss and agree on the instances where customer data shall be accessed and the user groups who will have access to the same. Access to the Bank's data should be strictly on a need to know basis**
- **Ensure that service provider employees are adequately aware and informed on the security and privacy policies.**

6. Roles and Responsibility

6.1. Board of Directors

The Board of Directors or a Committee of the Board to which powers are 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.

- Deciding on business activities of a material nature to be outsourced, and approving such arrangements.
- Instituting an appropriate governance mechanism for outsourced processes, comprising of risk based policies and procedures, to effectively identify, measure, monitor and control risks associated with outsourcing in an end to end manner.
 - Assessing management competencies to develop sound and responsive outsourcing risk management policies and procedures commensurate with the nature, scope, and complexity of outsourcing arrangements, and
 - Ensuring that quality and availability of banking services to customers are not adversely affected due to the outsourcing arrangements entered in to by the bank.

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 adequately.
 - Ensuring that there is independent review and audit for compliance with set policies.
 - Ensuring that quality and availability of banking services to customers are not adversely affected due to the outsourcing arrangements entered in to by the bank.

6.3. (Department/s that outsource/ intend to outsource 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.**
- **Outsourcing activities related to information technology of the Bank should be in accordance with the latest Information Security Policy of the Bank as well as Master guidelines on IT Services Outsourcing issued by RBI.**
- **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 of outsourcing.**
- **Putting up the proposal to Operational Risk Management Committee for approval.**
- **Providing necessary 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.**
- **Review, at least on an annual basis, the financial and operational condition of the service provider to assess its ability to continue to meet outsourcing obligations, to highlight any deterioration or breach in performance standards, confidentiality and security, and in business continuity preparedness**
- **Periodically conduct independent audit and expert assessments on the security and control environment of the service provider. Such assessments and reports on the service provider shall be performed and prepared by the Bank's internal or external auditors, or by agents appointed by the Bank, particularly keeping in view the clauses related to security and control in the latest Information Security Policy of the Bank.**
- **The reviews to be conducted by the concerned department should take adequate cognizance of historical violations or issue remediation during previous audits and assessments. Copies of previous audits and assessments should be shared during RBI inspections.**
- **Report to the regulator, where the scale and nature of functions outsourced are significant, or extensive data sharing is involved across geographic locations as part of technology / process**

outsourcing and when data pertaining to Indian operations are stored/ processed abroad.

- 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 and to ensure that its outsourcing risk management policies & procedures, and outsourcing guidelines, are effectively complied with.

❖ 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/SLAs 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.

Disseminate other information about the outsourcing activity as may be required from time to time for awareness of customers/public in general.

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.
- **7.1 Reconciliation of Transactions.**

In certain cases, like outsourcing of cash management, might involve reconciliation of transactions between the bank, the service provider and its sub-contractors. In such cases, the concerned department of the bank outsourcing such activities shall ensure that reconciliation of transactions between the bank and the service provider (and / or its sub-contractor), are carried out in a timely manner. An age-wise analysis of entries pending reconciliation with outsourced vendors shall be placed by the concerned department before the Audit Committee of the Board (ACB) on a half yearly basis and the concerned department of the bank shall make efforts to reduce the old outstanding entries/items therein at the earliest.

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 Direct Sales Agents (DSAs)/ Direct Marketing Agents (DMAs) /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 promptly without any delay.**
- **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/RBI.

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. The outsourcing department of the bank shall proactively evaluate such risk as part of the due diligence process and develop appropriate mitigating controls, 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 outsourcing department should ensure the following:
 - The activities outsourced outside India shall be conducted in a manner so as not to obstruct or hinder efforts of the bank or regulatory authorities to perform periodic audits/inspections and assessments, supervise or reconstruct the India activities of the bank based on books, records and necessary documentation, in a timely manner.
 - The outsourcing department shall principally enter into

arrangements with parties operating in jurisdictions that generally uphold confidentiality clauses and agreements.

- **The activities shall not be outsourced within jurisdictions where access to books, records and any other information required for audit and review purposes may be impeded due to regulatory or administrative constraints.**
- **The outsourcing department should notify the Regulator where the rights of access for the Bank and / or the Regulator are likely to be impeded.**
- **Emerging technologies such as data center hosting, applications as a service, cloud computing have given rise to unique legal jurisdictions for data and cross border regulations. The outsourcing department should clarify the jurisdiction for their data and applicable regulations at the outset of an outsourcing arrangement. This information should be reviewed periodically and in case of significant changes performed by the service provider**
- **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, including parent or Head office, branch or a group company, whether located within or outside India) would be identical to those specified in these guidelines. These requirements should be addressed as part of group wide risk assessment and management procedures.

Due diligence on an intra-group service provider may take the form of evaluating qualitative aspects on the ability of the service provider to address risks specific to the bank, particularly those relating to business continuity management, monitoring and control, and audit and inspection, including confirmation on the right of access to be provided to RBI to retain effective supervision over the bank, and

compliance with local regulatory standards. The respective roles and responsibilities of each office in the outsourcing arrangement should be documented by the outsourcing department in writing in a formal Service Level Agreement.

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 policy 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 Management/Board of Directors of the Bank.
