SHARAD SAHAKARI BANK LIMITED, MANCHAR

Risk Management in Outsourcing Arrangements Policy 2023-24

(ref : RBI circular RBI/2021-22/64, DOR.ORG.REC.27/21.04.158/2021-22 dated June 28,2021)

I INTRODUCTION

(a) Financial Institutions (FIs) are increasingly using third party services to carry out activities, functions and processes as outsourcing arrangements to meet new & complex challenges like innovation in technological transformation, increasing competition, growth in banking industry, economies of scale and improvement in quality of service to stakeholders (i.e. customers, depositors or investors). The practice, however, increases their dependence on third parties and consequently impacts their risk profile. With the objective to enable Banks to effectively manage the risks arising out of outsourcing.

(b) 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 an account of engaging any outsourcing agency, however, this outsourcing has resulted the banks being exposed to various risks.

(c) The Bank, while deciding to outsource any function, activity or process shall ensure that outsourcing should neither reduce the protection available to depositors or investors nor be used as a way of avoiding compliance with regulatory requirements. It will be the responsibility of the Bank to ensure compliance with all legal\regulatory requirements issued and amended from time to time, while entering into any outsourcing arrangement.

II. APPLICABILITY

(a) The guidelines contained in this policy are applicable on all outsourcing arrangements entered into by the Bank.

(b) This policy is applicable on all outsourcing arrangements of Bank with local as well as off-shore service providers.

(c) All new outsourcing arrangements by Bank shall be governed under this framework. The outsourcing arrangements already in place by Bank shall be streamlined to comply with this framework.

(d) The policy was approved by the Board of Directors, vide Board Resolution No.11 dt.19/04/2023.

III. 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 to activities subcontracted by the service providers.

IV. DEFINITION OF OUTSOURCING

For the purpose of this policy, outsourcing shall refer to Bank's use of a third party 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.

IV.1. MATERIAL OUTSOURCING

(a) During periodical inspection, 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:

(i) Size and scale of operations which are outsourced;
(ii) The impact on the institution's reputation and brand value, and ability to achieve its business objectives, business continuity, strategy and plans, should the service provider fail to perform the service;
(iii) The impact on the institutions' customers, should the service provider fail to perform the service or encounter a breach of confidentiality or security;
(iv) The potential Impact of the outsourcing on the bank on various parameters such as cost of outsourcing as a proportion of total operating cost, earnings, solvency, liquidity, funding capital and risk profile;
(v) The degree of difficulty, including the time taken, in finding an alternative service provider or bringing the business activity in-house.
(vi) The aggregate exposure to that particular service provider in cases where the Bank outsources various functions to the same service provider.
(vii) The ability to maintain appropriate internal controls and meet regulatory requirements due to operational problems faced by the service provider.
(viii) The affiliation or other relationship between the Bank or group and the service provider.
(ix) Impact on data privacy and security, whether access to customer data has to be extended to staff of the service provider;
(x) 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
(xi) Any other factor that the bank may consider appropriate for evaluating the materiality.

(a) Material outsourcing arrangements shall be approved by the board.
(b) The Bank shall list all the material outsourcing arrangements of a financial year in their annual audited accounts including the nature of service, name of the service provider and estimated cost of outsourcing etc.

V. GOVERNANCE OF OUTSOURCING ARRANGEMENTS

A. Responsibilities of the Board of Directors

1. The functions of the board, in case of a foreign bank working as a branch office in India, can be delegated to and performed by a local or regional management committee.

2. The Board of Directors shall:-

(i) Approve a framework to evaluate the risks and materiality of all existing and prospective outsourcing arrangements and the policies that apply to such arrangements. Laying down appropriate structure for outsourcing depending on risks and materiality.
(ii) Set a suitable risk appetite to define the nature and extent of risks that the Bank is willing and able to assume from its outsourcing arrangements.

(iii) Lay down appropriate approval authorities and limits for outsourcing arrangements consistent with its established strategy and risk appetite.
(iv) Ensure that senior management establishes appropriate governance structure and processes for sound and prudent outsourcing risk management.
(v) Decide on business activities of a material nature to be outsourced and approving such arrangements.
(vi) 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
(vii) 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.

B. Responsibilities of the Chief Executive Officer/Senior Management

The CEO/senior management shall:-

(i) Regularly review overall performance of service providers on outsourced activities.
(ii) Evaluate the materiality and risks from all existing and prospective outsourcing arrangements, based on the framework approved by the board.
(iii) Develop sound and prudent outsourcing policies and procedures that are commensurate with the nature, scope and complexity of the outsourcing arrangements.
(iv) Monitor and maintain effective control of all risks from material outsourcing arrangements on an institution-wide basis.
(v) Carry out evaluation and due diligence of the service providers before entering into any outsourcing arrangement.
(vi) Ensure that the outsourced functions are carried out as per the existing legal and regulatory framework.
(vii) Ensure that contingency plans, based on realistic and probable disruptive scenarios, are in place and tested on periodical basis.
(viii) Ensure that agreements with the service provider/vendor contain all necessary clauses, including regulatory requirements, which protect the interest of the bank.
(ix) Ensure that proper mechanism is in place for ongoing monitoring of the service provider as per the terms and conditions of SLA.
(x) Maintain centralized database of all outsourcing activities and regularly updating the board about the risks arising from its material outsourcing activities.
(xi) Ensure that Bank has a dispute escalation and its resolution mechanism in place for outsourcing arrangement.

C. Responsibilities of Internal Departments that outsource or intend to outsource an activity.

1. Internal Audit Dept.

i. The Bank's internal audit function shall regularly review outsourcing arrangements and report any deviation from the institution's outsourcing policy to the board or banks Audit Committee.
ii. All divisions or Departments at Head office outsourcing a financial activity shall inform about the performance of the outsourced financial activity to Audit department on half yearly basis in April and October. Audit department shall place a consolidated note before the Board.
iii. Audit the financial activities being outsourced by the Bank and put up findings to Board of Directors on annual basis.
iv. Submit compliance certificate to RBI about outsourced activities by any department of the Bank after its approval or vetting by the Board of Directors.

2. **KYC/AML department**.
   i. 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.

3. Accounts Department

i. The expenditure incurred on outsourcing the financial activity shall be debited to the relevant sub head of the General Ledger.
ii. The concerned department outsourcing the activity shall in consultation with the Accounts department take up this issue for opening of the relevant P& L head.
iii. The sub code so created shall also be intimated to Audit department.
iv. The procedure shall be adopted for all existing and fresh financial activities.

4. Administration Department

i. Finalize the service activity to be outsourced. Inputs from othe departments 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 Bank's outsourcing policy.
ii. Defining terms and conditions of outsourcing taking un to account the risk and materiality involved.
iii. Outsourcing activities related to Information and Technology of the bank should be in accordance with the latest information security policy of the bank as well as guidelines issued by RBI.
iv. Selection or short listing of the service provider/s after carrying out due diligence of service providers.
v. Putting up outsourcing proposal to BOD for approval.
vi. Providing necessary information to all concern departments at Head office.
vii. Implementation of agreement with service providers of activities outsourced by them.
viii. 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.
ix. The reviews to be conducted by the concerned departments 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.
x. 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/ processing abroad.
xi. Informing all other concerned departments in case of termination of an outsourced arrangement along with reasons thereof.

5. **<u>Recovery and Law department</u>**

Responsible for vetting of outsourcing agreements/ SLAs to be signed /executed by the Bank with the service provider

VI. RISK MANAGEMENT IN OUTSOURCING ARRANGEMENTS

A. Evaluation of the Risks

(i) The Bank shall manage the risks associated with outsourcing arrangements. In this regard, the ongoing assessment by the Bank shall also include operational risk and the concentration risk associated with all its outsourcing arrangements. Further, Bank shall inform RBI within two working days of any material or adverse development with regard to its outsourcing arrangement.

(ii) The various risks involved in outsourcing are

a. **Strategic risks:** the service provider may conduct business on its behalf, which is inconsistent with the overall strategic goals of the bank.
b. **Reputation risks**: poor service from the service provider. Its customer interaction may not be consistent with the overall standards of the bank.
c. **Compliance risks:** privacy, consumer and prudential laws may not be adequately complied with by the service provider.
d. **Operational risks:** arising due to technology failure, fraud, error, inadequate financial capacity of the service provider to fulfill obligations and/ or provide remedies.
e. **Legal risks:** 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.
f. **Counter party risks**: due to inappropriate underwriting or credit assessment.
g. **Exit strategy risks**: 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.
h. **Country risks:** due to political, social or legal climate of country where the service provider is located
i. **Contractual risks**: this risk arises from inability or degree of ability of the bank to enforce the contract with the service provider.
j. **Access risk:** an access risk arises when one or more actions or permissions that, when available to a single user, creates the potential for fraud or unintentional errors.
k. **Concentration and Systematic 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 systems as such.
l. The imperative thereof will be securing effective management by the bank for mitigation of this risk.

B. Service Provider due Diligence & Selection

(i) Firstly, the Bank shall internally carry out due diligence of the business activity to be outsourced. They shall then perform a detailed due diligence of the service provider before finalizing outsourcing arrangement.

(ii) The due diligence process of service provider shall encompass assessment of all areas including its experience, technical competence, financial strength, reputation, existence of control framework, performance standards, managerial skills, policies & procedures, reporting &monitoring environment and business continuity planning.

(iii) The due diligence shall also address other issues, such as potential conflicts of interest in case service provider is related/affiliated party, or where it provides similar services to competitors. The Bank’s shall also identify all potential and actual conflicts in the Bank are outsourcing operations to ensure that the conflicts are identified and avoided or prudently managed.

(iv) In cases where only one service provider is operating for a certain outsourcing activity, Bank shall enhance the due diligence process to identify and mitigate new risks.

(v) The due diligence and selection procedures shall also take into account the physical and IT security controls the service provider has in place, the business reputation and financial strength of the service provider, including the ethical and professional standards held by the service provider and its ability to meet obligations as per the requirements of the Bank.

(vi) Onsite visits to the service provider, and where possible, independent reviews and market feedback shall also be obtained to supplement the institution's assessment. Onsite visits shall be conducted by persons who possess the requisite knowledge and skills to conduct the risk assessment.

(vii) Any adverse findings from the due diligence shall be considered in light of their relevance and impact to the outsourcing arrangement.

(viii) The result of this due diligence shall be documented and presented for review by internal/external auditors and RBI as and when required.

C. Outsourcing Agreement

(i) All outsourcing arrangements shall be undertaken using a legally binding written agreement(s). The contract, at a minimum, shall include the following areas:

(a) Service levels and performance requirements;
(b) Audit and monitoring procedures;
(c) Business continuity plans;
(d) Default arrangements and termination clause provisions;
(e) Pricing and fee structure;
(f) Dispute resolution arrangements;
(g) Complaint handling procedures;
(h) Liability and indemnity;
(i) Confidentiality, privacy and security of customer data information.

(ii) The Banks, while entering into agreements with service providers, shall ensure that,

(a) The agreement defines the rights and responsibilities of both parties and contains adequate and measurable service levels.

(b) *The agreement with related parties reflects an arms-length relationship. Further entire process from start of engagement till end shall be properly documented.*

(c) *Service provider's physical and data security standards meet or exceed the* Bank's *standards.*

(d) *The agreement contains the minimum provisions required under existing laws and RBI rules and regulations including but not limited to timely access to all sorts of information, records, data applications, databases, networks/ network devices and systems is available to internal/external auditors and RBI Inspection teams as and when required.*

(e) *The agreement allows for renegotiation and renewal to enable the Bank(s) to retain an appropriate level of control over the outsourcing arrangement.*

(f) *The agreements with third parties do not include the services, which are not allowed in this guideline.*

(g) *The agreements have clauses setting out the rules and limitation/prohibition on subcontracting.*

(h) *An annual review of the outsourcing agreements is performed to assess that terms of the agreement are in line with current market practices and standards.*

(i) *The service provider delivers a level of service that meets the needs of the Banks.*

(j) *Penalty clause in the agreement in case service provider fails to provide services as per mutually agreed timelines and service availability.*

(k) *The agreement binds the service providers to report any change in their ownership structure, key management/partners/directors immediately to the Bank.*

(l) *The agreement sets out the procedures to enable Banks to effectively monitor the performance of the service provider.*

(iii) The Banks shall increase the cost of outsourced activity only after conducting comparative analysis of the rising cost.
(iv) No outsourcing arrangement shall be made with the party having relationship with the management/employees of the Bank, which may create a conflict of interest.
(v) Each agreement shall also address issues arising from country risks and potential obstacles in exercising oversight and management of the outsourcing arrangements by Banks made with a service provider outside India
(vi) The Banks shall have the right to terminate an outsourcing agreement in the event of default, or under circumstances where: (i) service provider undergoes a change in ownership; (ii) service provider becomes insolvent or goes into liquidation; (iii) service provider goes into receivership or judicial management whether in country or elsewhere; (iv) there has been a breach of security or confidentiality; (v) breach of any relevant legal requirement and/or regulatory directive and (vi) there is a demonstrable deterioration in the ability of the service provider to perform the contracted service.

D. Performance Standards

(i) The Banks shall set out service standards in the outsourcing agreement to specify and clarify performance expectations as well as establish accountability for the outsourced activity.

(ii) The Banks shall closely monitor the service provider's compliance with co-operative banks may follow relevant appropriate methodology in this regard. Performance standards keeping in view the following aspects, among others:

(a) Availability and timeliness of services
(b) Confidentiality and integrity of data
(c) Change control
(d) Security standards compliance, including vulnerability and penetration management
(e) Business continuity compliance
(f) Help desk support

(iii) The Banks shall also monitor the service provider's contractual service standards for backup, record retention, data protection and maintenance and testing of disaster recovery and contingency plans.

E. Ongoing Monitoring and control of Outsourced activities

(i) The Banks shall devote sufficient resources to manage and monitor an outsourcing relationship. The Banks can assign the responsibility of managing the outsourcing arrangement to an individual or team/committee. Further, the Banks shall ensure that personnel responsible for monitoring activities shall have the necessary expertise to assess the risks and impacts thereof.
(ii) The Banks shall have access to the necessary records held by the service provider.
(iii) The Banks shall periodically assess risks in service provider relationships to determine which service providers require closer monitoring.
(iv) The Banks shall ensure that effective mechanism is in place to monitor the outsourced activity, particularly the following:
(a)Material problems encountered by the service provider which may impact the Bank;
(b) Financial condition and risk profile of the service providers
(c) The results of Business Continuity Plan testing.
(v) The Banks shall ensure that any adverse development arising from any outsourced activity is brought to the attention of the senior management and the board on a timely basis.

(vi) The Banks shall continuously review the outsourcing relationship for modification and/or termination in case of adverse developments.

(vii) In case of material outsourcing, the Banks shall periodically obtain the financial statements, GST and Income tax returns of the service providers in order to assess the financial integrity and strength of the service provider. Where possible, the institution shall also obtain independent reviews/market feedback on the service provider to supplement its own findings.

F. Business continuity Planning

(i) The Bank shall take steps to evaluate and manage the interdependency risk arising from the material outsourcing arrangements so that they are able to conduct business in the event of a service disruption or failure, or unexpected termination of the outsourcing arrangement or liquidation of the service provider.

(ii) The Bank shall determine that the service provider has in place satisfactory Business Continuity Plans ("BCP") that are commensurate with the nature, scope and complexity of the outsourcing arrangement.

(iii) The Bank shall also require the service provider to notify it of any substantial changes in the service provider's BCP plans and of any adverse development that may substantially impact the services provided to the Bank.

(iv) For assurance on the functionality and effectiveness of its BCP plan, Bank shall design and carry out regular, complete and meaningful BCP testing that is commensurate with the nature, scope and complexity of the outsourcing arrangement.

(v) In establishing a viable contingency plan, bank should 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.

(vi) Bank to ensure that in adverse condition and /or termination of the contract, all documents, records of transactions and information given to the service provider and assets of the bank can be removed from the possession of the service provider in order to enable the bank to continue its business operations, or deleted destroyed or rendered unusable.

G. Confidentiality and security

(i) Public confidence and customer trust in bank is a perquisite 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 of the service provider.

(ii) 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.

(iii) The bank shall ensure that the service provider is able to isolate and clearly identify the bank's customer information. In the instances, where service provider acts as an outsourcing agent for multiple banks, care should be taken to build adequate safeguards so that there is no comingling of information/ documents, records and assets.

(iv) The bank shall 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.

(v) The bank shall immediately notify RBI in the event of any breach of security and leakage of confidential customer related information. In these eventualities the bank shall be liable to its customer for any damage.

H. Centralized List of Outsourced Agents

If the service provider's services are terminated by the bank, Administration department would be maintaining a caution list of such service providers for the entire departments.

The concerned department which terminates an outsourced arrangement shall inform Audit department and other concerned departments about termination of the arrangement along with reasons thereof.

VII. GENERAL CONTROLS

(a) The outsourcing arrangements shall not be considered as delegation of responsibility of Bank's management.

(b) The Bank shall not outsource any decision making function and those activities which can breach confidentiality of data/information of the customers/borrowers. For in-sourcing arrangements, the list of critical functions or activities where Bank cannot place / engage the third party employees is given as Annexure-A.

(c) The Bank, before providing data to third party, shall ensure that proposed outsourcing arrangement complies with the relevant statutory requirements related to confidentiality of its customers/clients, specifically the provision of relevant laws, regulations and instructions issued by SBP from time to time.

(d) In case where outsourcing arrangements involve disclosure of confidential customer information to service provider, the Bank shall seek consent of the customer and prior written approval of RBI. Such approval is necessary regardless of the fact that the specified data/information is provided to a third party or head office of foreign banking company, it's holding or Group Company.

(b) The Bank must ensure that outsourcing activity does not violate any statutory/regulatory requirements on Anti-Money Laundering (AML) and record keeping requirements of local as well as foreign jurisdiction.

(c) The Bank shall ensure that up-to-date records relevant to its outsourcing arrangements are maintained and kept available for inspection by the SBP inspection teams. In case of in-sourcing arrangements, the Bank(s) shall also keep record (personal files) of all in-sourced staff.

(d) The Bank may outsource storage/archival of Account Opening Forms (AOF) subject to the condition that appropriate controls are put in place to ensure confidentiality/integrity of customer data/information before transferring such records to the service provider for storage/archival.

(e) The Bank shall develop SOPs in line with legal and regulatory requirements for outsourcing of collection, recovery/repossessions services. Further, Bank shall also adhere to RBI's Guidelines for Collection, Recovery and/or Repossession Agencies.

VIII. REDRESSAL OF GRIEVANCES ABOUT OUTSOURCED SERVICES

(a) The head of the department of the administration department shall be designated as Grievance Redressal Officer for outsourced activities. Similarly an officer at each department shall also be designated as Grievance Redressal Officer for outsourced activities. The name and contact number of the designated Grievance Redressal Officer shall be made known and widely published. Head of the Audit Department officer shall ensure that these officers are designated at each branches and their names and contact numbers widely publicized.

(b) The Grievance Redressal Officer shall maintain proper log of the complaints relating to outsourced operations. The same shall be analyzed and escalated to the appropriate level for review. Further, the third party shall be responsible for sharing the information necessary to dispose of complaints within the defined timelines. The complaints record may be considered as one of the important factors at the time of performance evaluation of the service provider and to assess the effectiveness of outsourcing arrangement.

(c) The designated Grievance Redressal 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.
(d) Generally, a time of 30 days shall be given to the customers for preferring their complaints/ grievances. The grievances redressal procedures of the bank and the time frame fixed for responding to the complaints shall be placed on the bank's website.
(e) if a complaint 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 redressaal of his/ her grievances.

IX. OUTSOURCING OUTSIDE INDIA

(a) Any outsourcing arrangement outside INDIA will require RBI's prior approval subject to approval of the Country Head. All such requests shall be signed by the Head of compliance and include details of the functions to be outsourced, rationale for the outsourcing, details relating to the proposed service provider, agreement with the service provider, business continuity plan, disaster recovery arrangements and a legal opinion that the arrangement does not violate any relevant local law.
(b) The Bank shall conduct due diligence including but not limited to review of
    (i) The regulatory requirements of service providers' country
    (ii) Political, economic and social conditions of the service providers' country
    (iii) Diplomatic relationships, government policies, legal requirements in service providers' country
(iv) Events that may limit the Foreign Service provider's ability to provide the services and
(v) Any additional risk factor(s) that may needs to be made part of risk management framework.
(c) The Bank as an ongoing due diligence mechanism; shall review the service provider at least on an annual basis to ascertain its ability to deliver the outsourced services in the manner agreed as per SLA.
(d) As a part of risk management of outsourcing arrangements outside INDIA, the Bank shall also take into account its ability to effectively monitor the service provider, and execute its business continuity management plans and exit strategy of the outsourced arrangement.
(e) No offshore outsourcing arrangement shall be allowed in case the off shore service provider is not a regulated entity. Bank shall obtain written undertaking from the service provider that it is a regulated entity and, if required, shall provide access of its operations to SBP.
(f) Outsourcing shall not be allowed to entities or jurisdictions where visits by the staff of the Bank, their external auditors or RBI officials will be impractical / prohibited. In the event RBI is prevented, for whatever reason, from accessing the service provider or its records relating to outsourced function, RBI can direct the Bank to discontinue such outsourcing arrangements.
(g) If RBI so requires, the service providers must give consent of its home regulator to release any relevant information in relation to its operations that the SBP would wish to receive and in no case should it be prohibited, implicitly or explicitly, from doing so.
(h) Sub-contracting of offshore outsourcing arrangements is not allowed. RBI reserves the right in all outsourcing cases to review proposals or restrict the Bank to enter/stop any off-shore outsourcing agreement with any party.
(i) The Bank shall ensure that all information relating to outsourcing outside INDIA is available domestically and is also available for review or inspection by SBP at any time.
(j) The Bank shall carry out audit of the outsourced activities and submit audit findings to RBI as and when required.

X. GROUP OUTSOURCING

(a) The risk management practices to be adopted by the bank while outsourcing to a related party i.g. party within the group 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 requirement should be addressed as part pf group wide risk assessment and management procedures.

(b) due diligence on an intra-group service provider may take the form of evaluating 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 responsibilities of each office in the outsourcing arrangement should be documented by the outsourcing department in writing in a formal SLA-Service Level Agreement.

XI. OUTSOURCING BY FOREIGN BRANCHES OF BANKS

(a) Branches shall also carry out proper due diligence of off-shore service provider. Further, the foreign branches of banks shall also take into account the following areas, as part of its due diligence, on an ongoing basis:

- (i) Government policies, political, social, economic conditions in their country of operation;
- (ii) Legal and regulatory developments in the foreign country; and
- (iii) Ability to effectively monitor the service provider, and execute its business continuity management plans and exit strategy.

(b) All outsourcing arrangements by foreign branches of domestic banks shall be approved by Head Office.

(c) The foreign branches shall enter into SLA with the service provider in line with requirements as given under section VI (C).

(d) Foreign branches shall formulate comprehensive MIS to inform Head Office about all outsourced activities on periodical basis.

XII. IN-SOURCING

(a) The following conditions shall apply if Bank enters into in-sourcing arrangements:

- (i) The third party staff shall not be placed in areas/functions where decision making is involved.
- (ii) The third party staff shall not be placed in areas or functions where customer data or information can be compromised.
- (iii) The Bank shall ensure that credentials of third party staff are verified before hiring them for in sourcing services and that the service provider has robust mechanism to assess/verify the credential of each employee provided to Bank. This verification shall be documented and periodically (at least annually) assessed by Bank’s Internal Audit.
- (iv) In case of non-availability of verification of third party employee, the Bank shall conduct verification of their credentials on its own before engaging them. For existing third party employees.
- (v) In-sourcing arrangements shall be housed within the Banks’ premises and under the direct supervision of Banks’ officials.
- (vi) The Bank shall sign NDA with the third party service provider & their staff before procuring their services.
- (vii) In case the third party employee has previously worked with any financial institution, Bank shall obtain report about conduct of the employee from his previous employer.
- (viii) The Bank shall ensure that the wages and other benefits of third party employees

are not below the minimum wage and other benefits declared by the Government from time to time.

(ix) The Bank may hire/acquire the services of third party for printing, stuffing and delivery of statement of customers' accounts subject to the condition that Bank's own staff shall supervise the entire process in the bank's premises.

(x) The Bank shall maintain the complete Job Description (JD) of each third party employee.

XIII. INFORMATION TECHNOLOGY OUTSOURCING

(a) IT outsourcing shall be the part of Outsourcing Policy to be approved by the board. IT outsourcing, at a minimum, shall take into account operational & transactional risks; risks to the confidentiality of information; risks to Business Continuity and compliance/regulatory risks.

(b) IT outsourcing of equipment and services within INIDA shall be approved by the IT Steering Committee of the management.

(c) The Bank shall execute Software Escrow Contracts with the software developer or service providers.

(d) IT outsourcing shall not be allowed for critical IT systems/functions and applications of the Banks like core banking applications including Branchless Banking, mobile wallets of Branchless Banking, Main database, databases relating to information of customers, information security and Primary & Disaster Recovery Sites.

(e) In case the outsourcing activity or function falls under the purview of SBP's Rules for Payment Systems Operators/ Payment Systems Providers (PSO/PSP), the Bank shall collaborate with licensed PSO/PSP for the said services.

(f) Outsourcing of IT Audit is allowed subject to conditions that:

(i) The arrangement shall be approved by the board or its relevant committee.

(ii) The Bank shall formulate a comprehensive plan for capacity building of their staff enabling them to perform IT Audit internally in future and

(iii) The existing external auditor of the financial institution shall not be assigned the task of IT audit.

XIV. REPORTING OF TRANSACTIONS TO FIU

Bank shall be responsible for making Currency Transactions Report CTR and Suspicious Transaction Report STR to FIU or any other competent authority in respect of the bank's customer related activities carried out by the service provider.

XV. SELF ASSESSMENT OF EXISTING/PROPOSED OUTSOURCED ARRANGEMNTS.

The concerned departments, which have outsourced any activity, shall conduct self assessments 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- a - vis the existing / proposed outsourced activities.

XVI. 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.

ANNEXURE-A

List of Functions/Activities Not to Be Performed By Third Party Employees in Bank

Bank has made arrangements with vendors whereby third party employees have been placed in banks for performing various non-critical functions / activities. The following is a list of functions / activities, which cannot be performed by third party employees placed in Banks' premises, must have their own employees for performing all these activities.

1. General Banking

1.1 Account Opening/ Compliance with KYC norms

a) Scrutiny of Documents i.e. Account Opening Form and related documents as required under relevant provisions of Prudential Regulations and Bank's own policy

b) Authorization of customer / account data or any other data captured on systems of the Bank.

1.2 Account Maintenance and amendments

a) Scrutiny of amendment requests and related documents

b) Authorization of amendments to customer / account data / any other data

1.3 Clearing

Authorization of financial transactions posted to systems for inward clearing and outward clearing (local / foreign currency).

1.4 Tellers/Cashiers

All tellers or designated tellers, cashiers, Branch Service Officers excluding Cash Sorters

1.5 Custody of vaults / lockers and safe keys / instruments

Custodian of vaults, lockers, safe containing cash & documents, cheque books, ATM Cards and any other security stationary.

2. Trade Operations

2.1 Imports

a) Scrutiny of LC Application, Contract Registration & Amendment requests
b) Scrutiny of all import documents received under LC/Contracts and on collection basis
c) Authorization of Data (Financial & Non-Financial) captured in the systems of the Bank for issuance, amendments, acceptance and payments of LCs & contracts.
d) Authorization of all SWIFT Messages

2.2 Exports

a) Certification of E-Forms
b) Scrutiny of documents received under LC and on collection basis
c) Authorization of data captured on systems of the Bank for LC Advising, Acceptances & payments.
d) Authorization of all SWIFT Messages

2.3 Bank Guarantees

a) Scrutiny of Bank Guarantee issuance / amendment requests and related documents
b) Authorization of data (financial & non-financial) captured on systems of the Bank for Guarantees issuance, amendments, redemption and cancellation.
c) Authorization of all SWIFT Messages

3. Credit Administration

a) Scrutiny of Loan applications and related documents
b) Authorization of Limits captured in the system
c) Authorization of collateral data captured in the system
d) Credit files maintenance and record keeping
e) DAC (Disbursement Authorization Certificate) Issuance
f) Client stocks / Assets / Site Inspection
g) Safekeeping of securities & Vault management
h) E-CIB reporting supervision and access
i) Lien marking / removal of lien on systems of the Bank

4. Consumer Banking

a) Cards Production Activity
b) Authorization of Financial Transactions
c) Reconciliation of ATM, Debit & Credit Card transactions

5. Treasury/ Investment management

a) All Treasury Front Office, Middle and Back Office activities
b) Financial transactions authorization for settlement of foreign exchange, money market, equity and derivatives settlements at treasury Back Office
c) Authorization of data captured in systems of the Bank
d) Deal confirmations
e) Authorization of All SWIFT messages

6. Reconciliation

All types of reconciliation including but not limited to:

a) Nostro Accounts
b) Suspense Accounts
c) Inter-Branch entries
d) Inter –Bank entries

7. Information Technology

a) System and Database Administrations
b) User IDs Management and user limits assignment activities for all IT Systems
c) All positions that have authority to change system parameters for core banking and other critical Systems of the Bank.
d) Data Centre & DR Sites
e) Data Centre Operations & Management
f) Deployed System/Databases & Servers, and Application Deployment and /or Version Management may be added

8. Centralized Activities

The third party Employees cannot be placed on positions which are responsible for authorization of financial transactions and non-financial data.

9. Regulatory reporting

All positions responsible for regulatory reporting must have Banks' own employees.

10. Audit & Risk Management

a) Domestic branches / Units / Centralized Functions
b) Internal Audit Unit Head Office
c) Financial & Management Audits
d) Information Technology & Systems Audit
e) Business Risk Review
f) Credit Operations Audit
g) Monitoring & Reporting
h) Monitoring Bank-wide Key Risk Indicators
i) Review of new products / procedures with reference to Operational Risk
j) Managing Operational Risk Management Committee

11. **Compliance**

a) Coordination with RBI Inspection Teams
b) Advisory Role within the Bank
c) Review of Policy, procedures, product, programs with respect to Regulatory Guidelines / Regulations.
d) Monitoring / Implementation of Regulatory Guidelines / Regulations
e) Law Enforcement Agencies Coordination
f) Transaction Monitoring Activities
g) Review / Analysis & Closure of Alerts Generated through Transaction Monitoring System
h) On the basis of Review of Alerts filling of CTR/STR with Financial Investigation Unit (FIU)
i) Review of KYC profiles of Customers on an on-going basis
j) Name Scanning of prospective customers, transaction and database of the bank
k) Perform detailed investigations of external frauds pertaining to consumer/ debit card/ net banking and issue investigation report.

12. **Formulation of Policies**

a) Bank will not allow third party intervention to formulate various policies

Chief Executive Officer