



BERAR FINANCE LIMITED
BUSINESS OUTSOURCING POLICY

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1. Objective of formulating Business Outsourcing Policy is to ensure sound and responsive risk management practices for effective oversight, due diligence and management of risks arising from outsourcing activities and thereby protect the reputation of the Company from the failure of a service provider in providing a specified service, a breach in security/confidentiality, or non-compliance with legal and regulatory requirements by the service provider which may lead to financial losses for the Company and could also lead to systemic risks.

2. Definition:

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

2.2 'Outsourcing Financial Services: It typically 'include applications processing (loan origination), document processing, marketing and research, supervision of loans, data processing and back office related activities, besides others but does not include technology-related issues and activities not related to financial services, such as usage of courier, catering of staff, housekeeping and janitorial services, security of the premises, movement and archiving of records, etc.

3. The Activities that shall not be outsourced:

The Company will not outsource core management functions including Internal Audit, Strategic and Compliance functions and decision-making functions such as determining compliance with KYC norms for opening deposit accounts, according sanction for loans (including retail loans) and management of investment portfolio.

4. Criteria for selection of outsourcing of financial activities and it's materiality:

Material outsourcing arrangements are those which, if disrupted, have the potential to significantly impact on the business operations, reputation, profitability or customer service. While deciding any financial activity to be outsourced, emphasis should be given on following points:

- the level of importance to the Company of the activity being outsourced as well as the significance of the risk posed by the same;
- the potential impact of the outsourcing on the Company on various parameters such as earnings, solvency, liquidity, funding capital and risk profile;
- the likely impact on the Company's reputation and brand value, and ability to achieve its business objectives, strategy and plans, should the service provider fail to perform the service;
- the cost of the outsourcing as a proportion of total operating costs of the Company;
- the aggregate exposure to that particular service provider, in cases where the Company outsources various functions to the same service provider and
- the significance of activities outsourced in context of customer service and protection.

5. The Company's role and Regulatory and Supervisory Requirements

5.1 The outsourcing of any activity by the Company does not diminish its obligations, and those of its Board and senior management, who have the ultimate responsibility for the outsourced activity. The Company would therefore be responsible for the actions of its service provider including Direct Sales Agents/ Direct Marketing Agents and recovery agents and the confidentiality of information pertaining to the customers that is available with the service provider. The Company shall retain ultimate control of the outsourced activity.

5.2 It is imperative for the Company, when performing its due diligence in relation to outsourcing, to consider all relevant laws, regulations, guidelines and conditions of approval, licensing or registration.

5.3 Outsourcing arrangements shall not affect the rights of a customer against the Company, including the ability of the customer to obtain redress as applicable under relevant laws. In cases where the customers are required to deal with the service providers in the process of dealing with the Company, the Company shall incorporate a clause in the relative product literature/ brochures, etc., stating that they may use the services of agents in sales/ marketing etc. of the products. The role of agents may be indicated in broad terms.

5.4 The service provider shall not impede or interfere with the ability of the Company to effectively oversee and manage its activities nor shall it impede the Reserve Bank of India in carrying out its supervisory functions and objectives.

5.5 The Company has a robust grievance redress mechanism, which in no way shall be compromised on account of outsourcing.

5.6 The service provider, if not a group company of the Company, shall not be owned or controlled by any director of the Company or their relatives; these terms have the same meaning as assigned under Companies Act, 2013.

6. Role of the Board and Senior Management

6.1 Role of Risk Management Committee

Risk Management Committee of the Board shall be responsible *inter alia* for the following:

- i. approving a framework to evaluate the risks and materiality of all existing and prospective outsourcing and the policies that apply to such arrangements;
- ii. laying down appropriate approval authorities for outsourcing depending on risks and materiality;
- iii. setting up suitable administrative framework of senior management for the purpose of these directions;
- iv. undertaking regular review of outsourcing strategies and arrangements for their continued relevance, and safety and soundness and
- v. deciding on business activities of a material nature to be outsourced, and approving such arrangements.

6.2 Responsibilities of the Senior Management

- i. Evaluating the risks and materiality of all existing and prospective outsourcing, based on the framework approved by the Board;
- ii. developing and implementing sound and prudent outsourcing policies and procedures commensurate with the nature, scope and complexity of the outsourcing activity;

- iii. reviewing periodically the effectiveness of policies and procedures;
- iv. communicating information pertaining to material outsourcing risks to the Board in a timely manner;
- v. ensuring that contingency plans, based on realistic and probable disruptive scenarios, are in place and tested;
- vi. ensuring that there is independent review and audit for compliance with set policies and
- vii. Undertaking periodic review of outsourcing arrangements to identify new material outsourcing risks as they arise.

6.3 Evaluation of the Risks

The Company shall evaluate and guard against the following risks in outsourcing:

- i. Strategic Risk – Where the service provider conducts business on its own behalf, inconsistent with the overall strategic goals of the Company.
- ii. Reputation Risk – Where the service provided is poor and customer interaction is not consistent with the overall standards expected of the Company.
- iii. Compliance Risk – Where privacy, consumer and prudential laws are not adequately complied with by the service provider.
- iv. Operational Risk- Arising out of technology failure, fraud, error, inadequate financial capacity to fulfil obligations and/ or to provide remedies.
- v. Legal Risk – Where the Company is subjected to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements due to omissions and commissions of the service provider.
- vi. Exit Strategy Risk – Where the Company is over-reliant on one firm, the loss of relevant skills in the Company itself preventing it from bringing the activity back in- house and where the Company has entered into contracts that make speedy exits prohibitively expensive.
- vii. Counter party Risk – Where there is inappropriate underwriting or credit assessments.
- viii. Contractual Risk – Where the Company may not have the ability to enforce the contract.
- ix. Concentration and Systemic Risk – Where the overall industry has considerable exposure to one service provider and hence the Company may lack control over the service provider.
- x. Country Risk – Due to the political, social or legal climate creating added risk.

6.4 Evaluating the Capability of the Service Provider

6.4.1 In considering or renewing an outsourcing arrangement, appropriate due diligence shall be performed to assess the capability of the service provider to comply with obligations in the outsourcing agreement. Due diligence shall take into consideration qualitative and quantitative, financial, operational and reputational factors. The Company shall consider whether the service providers' systems are compatible with their own and also whether their standards of performance including in the area of customer service are acceptable to it. The Company shall also consider, while evaluating the capability of the service provider, issues relating to undue concentration of outsourcing arrangements with a single service provider. Where possible, the Company shall obtain independent reviews and market feedback on the service provider to supplement its own findings.

6.4.2 Due diligence shall involve an evaluation of all available information about the service provider, including but not limited to the following:

- i. past experience and competence to implement and support the proposed activity over the contracted period;
- ii. financial soundness and ability to service commitments even under adverse conditions;
- iii. business reputation and culture, compliance, complaints and outstanding or potential litigation;
- iv. security and internal control, audit coverage, reporting and monitoring environment, business continuity management and
- v. ensuring due diligence by service provider of its employees.

6.5 The Outsourcing Agreement

The terms and conditions governing the contract between the Company and the service provider shall be carefully defined in written agreements and vetted by Company's legal counsel on their legal effect and enforceability. Every such agreement shall address the risks and risk mitigation strategies. The agreement shall be sufficiently flexible to allow the Company 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 shall also bring out the nature of legal relationship between the parties- i.e. whether agent, principal or otherwise. Some of the key provisions of the contract shall be the following:

- i. the contract shall clearly define what activities are going to be outsourced including appropriate service and performance standards;
- ii. the Company must ensure it has the ability to access all books, records and information relevant to the outsourced activity available with the service provider;
- iii. the contract shall provide for continuous monitoring and assessment by the Company of the service provider so that any necessary corrective measure can be taken immediately;
- iv. a termination clause and minimum period to execute a termination provision, if deemed necessary, shall be included;
- v. controls to ensure customer data confidentiality and service providers' liability in case of breach of security and leakage of confidential customer related information shall be incorporated;
- vi. there must be contingency plans to ensure business continuity;
- vii. the contract shall provide for the prior approval/ consent by the Company of the use of sub-contractors by the service provider for all or part of an outsourced activity;
- viii. it shall provide the Company with the right to conduct audits on the service provider whether by its internal or external auditors, or by agents appointed to act on its behalf and to obtain copies of any audit or review reports and findings made on the service provider in conjunction with the services performed for the Company;
- ix. outsourcing agreements shall include clauses to allow the Reserve Bank of India or persons authorised by it to access the Company's documents, records of transactions, and other necessary information given to, stored or processed by the service provider within a reasonable time;
- x. outsourcing agreement shall also include a clause to recognise the right of the Reserve Bank to cause an inspection to be made of a service provider of the Company and its books and account by one or more of its officers or employees or other persons;
- xi. the outsourcing agreement shall also provide that confidentiality of customer's information shall be maintained even after the contract expires or gets terminated

and

- xii. the Company shall have necessary provisions to ensure that the service provider preserves documents as required by law and take suitable steps to ensure that its interests are protected in this regard even post termination of the services.

6.6 Confidentiality and Security

- 6.6.1 Public confidence and customer trust in the Company is a prerequisite for the stability and reputation of the Company. Hence the Company shall seek to ensure the preservation and protection of the security and confidentiality of customer information in the custody or possession of the service provider.
- 6.6.2 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.
- 6.6.3 The Company shall ensure that the service provider is able to isolate and clearly identify the Company's customer information, documents, records and assets to protect the confidentiality of the information. In instances, where service provider acts as an outsourcing agent for multiple NBFCs, care shall be taken to build strong safeguards so that there is no comingling of information / documents, records and assets.
- 6.6.4 The Company 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
- 6.6.5 The Company shall immediately notify RBI in the event of any breach of security and leakage of confidential customer related information. In these eventualities, the Company would be liable to its customers for any damages.

6.7 Responsibilities of Direct Sales Agents (DSA)/ Direct Marketing Agents (DMA) for Loans and Deposits/ Recovery Agents

- 6.7.1 The Company shall put in place a board approved Code of conduct for DSA/ DMA/ Recovery Agents and obtain their undertaking to abide by the code.

The Code of Conduct shall include:

- a) The DSA/ DMA/ Recovery Agents should be properly trained to handle their

responsibilities with care and sensitivity, particularly aspects such as soliciting customers, hours of calling, privacy of customer information and conveying the correct terms and conditions of the products on offer, etc.

- b) In addition, Recovery Agents shall adhere to extant instructions on Fair Practices Code for the Company as their own code for collection of dues and repossession of security. The Recovery Agents should refrain from action that could damage the integrity and reputation of the Company and that they observe strict customer confidentiality.
- c) They 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.

6.8 Business Continuity and Management of Disaster Recovery Plan

The Company shall require its service providers to develop and establish a robust framework for documenting, maintaining and testing business continuity and recovery procedures. Company need to ensure that the service provider periodically tests the Business Continuity and Recovery Plan and may also consider occasional joint testing and recovery exercises with its service provider.

- 6.8.1 In order to mitigate the risk of unexpected termination of the outsourcing agreement or liquidation of the service provider, the Company shall retain an appropriate level of control over their outsourcing and the right to intervene with appropriate measures to continue its business operations in such cases without incurring prohibitive expenses and without any break in the operations of the Company and its services to the customers.
- 6.8.2 In establishing a viable contingency plan, the Company shall 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.
- 6.8.3 Outsourcing often leads to the sharing of facilities operated by the service provider. The Company shall ensure that service providers are able to isolate the Company's information, documents and records, and other assets. This is to ensure that in appropriate situations, all documents, records of transactions and information given

to the service provider, and assets of the Company, can be removed from the possession of the service provider in order to continue its business operations, or deleted, destroyed or rendered unusable.

6.9 Monitoring and Control of Outsourced Activities

- 6.9.1 The Company shall have in place a management structure to monitor and control its outsourcing activities. It shall ensure that outsourcing agreements with the service provider contain provisions to address their monitoring and control of outsourced activities.
- 6.9.2 A central record of all material outsourcing that is readily accessible for review by the Board and senior management of the Company shall be maintained. The records shall be updated promptly and half yearly reviews shall be placed before the Board or Risk Management Committee.
- 6.9.3 Regular audits by either the internal auditors or external auditors of the Company shall assess the adequacy of the risk management practices adopted in overseeing and managing the outsourcing arrangement, the Company's compliance with its risk management framework and the requirements of these directions.
- 6.9.4 The Company shall at least on an annual basis, review the financial and operational condition of the service provider to assess its ability to continue to meet its outsourcing obligations. Such due diligence reviews, which can be based on all available information about the service provider shall highlight any deterioration or breach in performance standards, confidentiality and security, and in business continuity preparedness.
- 6.9.5 In the event of termination of the outsourcing agreement for any reason in cases where the service provider deals with the customers, the same shall be publicized by displaying at a prominent place in the branch, posting it on the web-site, and informing the customers so as to ensure that the customers do not continue to deal with the service provider.
- 6.9.6 Certain cases, like outsourcing of cash management, might involve reconciliation of transactions between the Company, the service provider and its sub-contractors. In such cases, Company shall ensure that reconciliation of transactions between the Company and the service provider (and/ or its sub-contractor), are carried out in a timely manner. An ageing analysis of entries pending reconciliation with outsourced

vendors shall be placed before the Audit Committee of the Board (ACB) and the Company shall make efforts to reduce the old outstanding items therein at the earliest.

6.9.7 A robust system of internal audit of all outsourced activities shall also be put in place and monitored by the ACB of the Company.

6.10 Redressal of Grievances related to Outsourced Services

- i. The Company has constituted Grievance Redressal Mechanism as per Reserve Bank of India (RBI) Directions issued from time to time for redressal of Customer grievances including the grievances due to services provided by the outsourced agent or agency. At the operational level, the Company has displayed the name and contact details (Telephone/ Mobile nos. and email address) of the Grievance Redressal Officer prominently at its branches/ places where business is transacted including the website of the Company. The designated officer shall ensure that genuine grievances of customers are redressed promptly without involving delay.
- ii. Generally, a time limit of 30 days will be given to the customers for preferring their complaints/ grievances. The grievance redressal procedure of the Company and the time frame fixed for responding to the complaints shall be placed on the Company's website.

6.11 Reporting of transactions to FIU or other competent authorities

The Company would be responsible for making Currency Transactions Reports and Suspicious Transactions Reports to FIU or any other competent authority in respect of the Company's customer related activities carried out by the service providers.

7. Review of the Policy:

The Company shall review the policy annually.
