Outsourcing policy - TVS Credit services limited (as approved by the board of directors on 27th march 2015)

Introduction:

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

Recognizing the need for outsourcing some of the selected activities by the NBFCs, the Reserve Bank of India has issued draft guidelines for addressing the risks that the NBFCs would be exposed to on account of engaging any outsourcing agency.

Accordingly, TVSCS, the company has put in place its outsourcing policy, which would be applicable for all the service providers located in India or elsewhere.

Scope of the Policy:

The policy incorporates the criteria for selection of the activities that may be outsourced, risks arising out of outsourcing and management of these risks, due diligence of outsourcing service providers, delegation of powers depending on risks & materiality, systems to monitor and review the operations of these activities.

Definition of Outsourcing

For the purpose of this policy, Outsourcing shall refer to company'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 company, now or in the future.

The activities shall refer to outsourcing of financial services and activities not related to support 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 RBI in this regard.

Indicative list of activities that can be outsourced

Financial services that can be outsourced by the company may include application processing (loan origination), 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:

- Lead sourcing activity
- Field Investigation

- Call Centre
- Collection
- Operations
- Recovery and repossession
- Documents quality check
- Storage of documents
- Legal
- Information Technology
- Risk Control Unit

The above list is indicative only and not exhaustive. Additional activities within the definition of outsourcing can also be outsourced by the company.

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 according sanction for loans and management of investment portfolio shall not be outsourced by the company However, for NBFCs in a group/ conglomerate, these functions may be outsourced within the group subject to compliance with specific instructions mentioned in this policy. Further, while internal audit function itself is a management process, the internal auditors can be on contract.

Risk arising out of outsourcing

Outsourcing of financial services exposes a company 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 company.

Reputation Risk - Poor service from the service provider, its customer interaction may not be consistent with the overall standards of the company.

Compliance Risk – Where privacy, consumer and prudential laws are not 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 company itself preventing it from bringing the activity back in-house and contracts entered into wherein speedy exits would be prohibitively expensive.

Counter party Risk – Where there is 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 company to enforce the contract with the service provider.

Confidentiality Risk – This risk arise due to leakage of customer information by the service providers.

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

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

Management of risks

To enable sound and responsive risk management practices for effective oversight, due diligence and management of risks arising from outsourcing activities, all concerned departments who decide to outsource a financial activity /service shall follow the below mentioned principles applicable to arrangements entered into by the company 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.

General Appraisal:

- While outsourcing a financial activity, Company shall consider all relevant laws, regulations, guidelines and conditions of approval, licensing or registration.
- Company shall retain ultimate control of the outsourced activity, as outsourcing of any activity by the Company does not diminish its obligations, and those of its Board and Senior Management, who have responsibility for the outsourced activity. Company 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 Company's ability to fulfill its obligations to customers and RBI nor impede effective supervision by RBI. Company shall therefore, ensure that the service provider employs the same high standard of care in performing the services as would be employed by the Company, if the activities were conducted within the Company and not outsourced.
- Company shall not engage in such outsourcing that would result in its internal control, business conduct or reputation being compromised or weakened.
- Company shall ensure that the service provider does not impede or interfere with the ability of the Company 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 Company and the RBI to access all books, records and information available with the service provider should remain protected.

- Company 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 Company, including the ability of the customer to obtain redress as applicable under relevant laws. While outsourcing a related party (i.e. party within the Group/Conglomerate), Company shall adopt the identical risk management practices as in case of service providers external to the Corporate group.

Appraisal of Service Provider:

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

- That the Service Provider, if it is not a subsidiary of the Company, is not owned or controlled by any Director or Officer/ Employee of the Company or their relatives having the same meaning as assigned under Section 6 of the Companies Act, 1956.
- The capability of the service provider to comply with obligations in the outsourcing agreement such as:

a. Qualitative, quantitative, financial, operational and reputational factors

b. Compatibility with their own systems

c. 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 Company;

d. 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. Where service provider acts as an outsourcing agent for multiple companies, care shall be taken to build strong safeguards so that there is no commingling of information/documents, records and assets.

Examination & Evaluation:

In order to examine the capability on the above points an evaluation shall be conducted of all available information about the service provider, including but not limited to:-

- Past experience and competence to implement and support the proposed activity over the contracted period;-
- Financial soundness and ability to service commitments even under adverse conditions;
- Business reputation and culture, compliance, complaints and outstanding or potential litigation;
- Standards of performance including in the area of customer service;
- Security and internal control, audit coverage, reporting and monitoring environment, Business continuity management;
- Company shall ensure that the service provider has performed a due diligence of its employees
- Where ever possible, the Company shall obtain independent reviews and market feedback on the service provider to supplement its own findings.
- Company shall avoid undue concentration of outsourcing arrangements with a single service provider.
- Public confidence and customer trust in the Company is a pre-requisite 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. 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.
- The Company shall ensure that the service provider is able to isolate and clearly identify the TVSCS'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 companies, care shall be taken to build strong safeguards so that there is no comingling of information / documents, records and assets.

Materiality of outsourcing:

Material outsourcing arrangements are those, which if disrupted have the potential to significantly impact the business operations, reputation or profitability. Keeping in view the above, once the financial activity to be outsourced and its service provider is selected; Company shall assess its materiality of outsourcing based on:

- The level of importance to the Company of the activity being outsourced;
- 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, if the service provider fails 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 outsource various functions to the same services provider.
- The significance of activities outsourced in context of customer service and protection. Whether to be included as it is not as per RBI guidelines.

Post Outsourcing Appraisal:

In order to mitigate the risk of unexpected termination of the outsourcing agreement or liquidation of the service provider, Company 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 Company and its services to the customers.
- Establish a viable contingency plan to consider the availability of alternative service providers or the possibility of bringing the outsourced activity back-in-house in an emergency and the costs, time and resources that would be involved.
- Review and monitor the security practices and control processes of the service provider on a regular basis and require the service provider to disclose security breaches.
- Immediately notify RBI in the event of any breach of security and leakage of confidential customer related information. In these eventualities, the Company would be liable to its customers for any damage.

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 should 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 would be:

• The contract should clearly define the activities that are being outsourced, including appropriate service and performance standards.

• The company must ensure that it has the ability to access all books, records and information relevant to the outsourced activity available with the service provider.

• The contract should provide for continuous monitoring and assessment of the service provider by the company, so that any necessary corrective measures are taken immediately

• A termination clause and minimum periods to execute a termination provision, if deemed necessary, should be included.

• Controls to ensure customer data confidentiality and service providers' liability in case of breach of security and leakage of confidential customer related information.

• Contingency plans to ensure business continuity.

The outsourcing agreement should

- 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.

- 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.

- Include clauses to allow the Reserve Bank of India or persons authorized 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.

- 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 company 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.

- Provide for the preservation of documents and data by the service provider in accordance with the legal/regulatory obligation of the company in this regard and take suitable steps to ensure that its interests are protected in this regard even post termination of the services

- Before entering into any contractual engagement with the service providers, the contracts shall be placed to the Legal department of the Company for approval of form and content. Any changes to the contracts in the form of supplementary contracts or addendum or renewals & extension, shall also be placed with the Legal department for vetting before formalization of the contracts.

Roles and Responsibility

Role of the Board / Risk Management Committee

The Board or the Risk Management Committee to carry out the following activities with regard to outsourcing arrangements

- 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.

- setting up suitable administrative framework of senior management for the purpose of these directions

• Undertaking regular review of outsourcing strategies and arrangements for their continued relevance, safety and soundness, and

• Deciding on business activities of a material nature to be outsourced, and approving such arrangements.

Role of the Senior Management

The Risk Management committee under the guidance of the Board shall constitute a sub- committee comprising of Senior management personnel to conduct regular review of the outsourcing activities and the performance of service providers to ensure sound and responsive risk management practice by the Company

The Senior management committee shall meet at regular intervals and carry out the following activities to assess the operations of service providers with regard to outsourcing arrangements: (Refer Senior Management framework for the review methodology)

• Evaluating the risks and materiality of all existing and prospective outsourcing, based on the framework approved by the Board.

• Developing and implementing sound and prudent outsourcing policies and procedures commensurate with the nature, scope and complexity of the outsourcing.

• Reviewing periodically the effectiveness of policies and procedures.

• Communicating information pertaining to material outsourcing risks to the Board in a timely manner.

• Ensuring that contingency plans, based on realistic and probable disruptive scenarios, are in place and tested.

• Ensuring that there is independent review and audit for compliance with set policies.

• undertaking periodic review of outsourcing arrangements to identify new material o utsourcing risks as they arise

Monitoring & Control of Outsourced activities

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.

• New vendor appointment/ renewal: 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 Due diligence review shall be documented and approved as per workflow structure of the Company and placed to the RMC or Board for approval.

- Centralized Register: A central record of all material outsourcing that is readily accessible for review by the Board/RMC and the 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 RMC for approval

- Operations Assessment: Monthly review of the operations of service providers shall be carried out by the respective departments whose activities have been outsourced. The Company shall review the compliance with contractual conditions by outsourcing service providers every month based on pre-defined criteria for assessment. The review shall be documented in prescribed format and place to Senior management committee for review and guidance on quarterly basis.

- Review Meetings: The Senior management committee shall meet once in a quarter to discuss the findings made by various departments during regular operations review conducted by them and address the red flags if any identified with suitable action plan for gap remediation.

- Audits: Regular audits by either the internal auditors or external auditors of the Company shall be conducted on a half yearly basis to assess the adequacy of the risk management practices adopted in overseeing and managing the outsourcing arrangement, compliance with its risk management framework and other aspects covered by the policy.

- Annual Risk assessments: The Company (the Board / RMC) shall on a 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.

- Termination: 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.

- 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 Company shall make efforts to reduce the old outstanding items therein at the earliest.

- Internal Audits: A robust system of internal audit of all outsourced activities shall also be put in place and monitored by the Audit committee of the Company

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 Procedure shall be adopted for all existing and fresh financial activities.

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. 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.

Responsibilities of Dealers/DSA / DMA/ Recovery Agents

The Company shall ensure that the Dealers/ Direct Sales Agents (DSA)/Direct Marketing Agents(DMA)/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.

TVSCS shall put in place a board approved Code of conduct for DSA/ DMA/ Recovery Agents, and obtain their undertaking to abide by the code. In addition, Recovery Agents shall adhere to extant instructions on Fair Practices Code for TVSCS as also their own code for collection of dues and repossession of security. It is essential that the Recovery Agents refrain from action that could damage the integrity and reputation of the TVSCS and that they observe strict customer confidentiality.

The company 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.

Redressal of Grievances related to Outsourced services

NBFCs shall constitute Grievance Redressal Machinery as contained in RBI's circular on Grievance Redressal Mechanism vide DNBS. CC. PD. No. 320/03. 10. 01/2012-13 dated February 18, 2013

At an operational level, the Company shall

• Designate an official in Customer Care Department as Grievance Redressal Officer for outsourced activities 9 to check as at present the company sec is the GRM).

• display the name and contact details (Telephone/ Mobile nos. as also email address) of the Grievance Redressal Officer prominently at their branches/ places where business is transacted

• 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. It shall be clearly indicated that NBFCs' Grievance Redressal Machinery will also deal with the issue relating to services provided by the outsourced agency.

• Generally, a time limit of 30 days shall be given to the customers for preferring their complaints/grievances.

• If a complainant does not get satisfactory response from the company within 60 days from the date of lodging the complaint, the complainant will have the option to approach the office of the concerned Companying Ombudsman for redressal of his/her grievance/s.

- The grievance redressal procedure of the NBFC and the time frame fixed for responding to the complaints shall be placed on the NBFC's website.

Reporting of transactions to FIU or other competent authorities

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

Outsourcing within a Group/Conglomerate

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

- The Company shall enter into service level agreements/ arrangements with their group entities, which shall also cover demarcation of sharing resources i.e. premises, personnel, etc. and other back-office and service arrangements/ agreements with group entities such as legal and other professional services, hardware and software applications, centralize back-office functions, outsourcing certain financial services etc.

- The customers shall be informed specifically about the company which is actually offering the product/ service, wherever there are multiple group entities involved or any cross selling observed.

- While entering into such arrangements, the Company shall ensure that these:

a. are appropriately documented in written agreements with details like scope of services, charges for the services and maintaining confidentiality of the customer's data;

b. do not lead to any confusion to the customers on whose products/ services they are availing by clear physical demarcation of the space where the activities of the NBFC and those of its other group entities are undertaken;

c. do not compromise the ability to identify and manage risk of the Company on a stand-alone basis;

d. do not prevent the RBI from being able to obtain information required for the supervision of the Company or pertaining to the group as a whole; and

e. incorporate a clause under the written agreements that there is a clear obligation for any service provider to comply with directions given by the RBI in relation to the activities of the Company.

- The Company shall ensure that their ability to carry out their operations in a sound fashion would not be affected if premises or other services (such as IT systems, support staff) provided by the group entities become unavailable.

- If the premises of the Company are shared with the group entities for the purpose of cross-selling, the Company shall take measures to ensure that the entity's identification is distinctly visible and clear to the customers. The marketing brochure used by the group entity and verbal communication by its staff / agent in the Company's premises shall mention nature of arrangement of the entity with the Company so that the customers are clear on the seller of the product.

- The Company shall not publish any advertisement or enter into any agreement stating or suggesting or giving tacit impression that they are in any way responsible for the obligations of its group entities.

- The risk management practices expected to be adopted by the Company while outsourcing to a related party (i.e. party within the Group / Conglomerate) would be identical to those specified for unrelated parties mentioned in this policy.

Off-shore outsourcing of Financial Services

The Company currently does not have any Off shore outsourcing arrangements for financial services. In case such an arrangement is entered into by the Company anytime in future, the specific directions in this regard mentioned in the RBI guidelines for Outsourcing activities shall be duly complied with.

Self Assessment of Existing / Proposed Outsourcing Arrangements

The concerned Departments, which have outsourced any activity, shall conduct a self-assessment of the existing/ proposed outsourcing agreements within a time bound plan and bring them in line with the guidelines expeditiously. Similarly all other Departments shall undertake immediate action with regards to the roles/ responsibilities assigned to them vis-à-vis the existing/ proposed outsourced activities.

Review of the Policy

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