



**IIFL WEALTH PRIME LIMITED**

**OUTSOURCING POLICY**

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## 1. PREAMBLE:

This Policy shall be termed as Outsourcing Policy of IIFL Wealth Prime Limited (formerly known as IIFL Wealth Prime Limited). The terms in this policy shall be considered as defined by the Reserve Bank of India in its various directions, guidelines as issued and may be issued from time to time and, or as defined herein below.

Outsourcing involves transferring a significant amount of management control and decision-making to the outside supplier. Buying products from another entity is not outsourcing or out-tasking, but merely a vendor relationship. Likewise, buying services from a provider is not necessarily outsourcing or out-tasking. Outsourcing always involves a considerable degree of two-way information exchange, coordination and trust.

Outsourced financial services include applications processing (loan origination), document processing, marketing and research, supervision of loans, data processing and back office related activities etc. Outsourcing business is often characterized by expertise not inherent to the core of the client organization.

## 2. OUTSOURCING:

Outsourcing may be defined as a 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 that would normally be undertaken by the Company itself, now or in the future. 'Continuing basis' would include agreements for a limited period. Reserve Bank of India has issued directions on Outsourcing of Financial Services by Non-Banking Financial Companies, facilitating adoption of sound and responsive risk management practices while outsourcing the activities.

The Company may outsource the following functions within the group/ conglomerate only:

- 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.

## 3. RBI GUIDELINES ON OUTSOURCING:

The Reserve Bank of India vide its Notification No. DNBR.PD.CC.No.090/03.10.001/2017-18 dated November 09, 2017 has issued directions on Managing Risk and Code of Conduct in Outsourcing Financial Services by Non-Banking Financial Companies with a view to adopt sound and responsive risk management practices for effective oversight, due diligence and management of risk arising from outsourcing activities.

The Directions as aforesaid are applicable to material outsourcing arrangements as defined in Para 10 of this Policy which may be entered into by the Company with a service provider, who may be either a member of the group/ conglomerate to which the Company belongs or an unrelated party, located in India or elsewhere.

Such arrangements would be subject to on-site/ off-site monitoring and inspection/ scrutiny by the RBI.

#### **4. ACTIVITIES THAT SHOULD NOT BE OUTSOURCED:**

The Company shall 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 loan accounts, according sanction for loans and management of investment portfolio. Subject to compliance with Para 17 of this Policy, the Company is entitled to outsource these functions in a group/ conglomerate, and while the internal audit function itself is a management process that is supervised by the Chief Risk Officer, the internal auditors can be on contract.

#### **5. MANAGEMENT OF RISK:**

5.1 The various risks involved in Outsourcing are Strategic Risk, Reputation Risk, Compliance Risk, Operational Risk, Legal Risk, Exit Strategy Risk, Counterparty Risk, Country Risk, Contractual Risk, Access Risk, Concentration and Systemic Risk.

5.2 The Key risk to be evaluated by the Company are:-

1. Strategic Risk - Where the service provider conducts business on its own behalf, inconsistent with the overall strategic goals of the Company.
2. Reputation Risk - Where the service provided is poor and customer interaction is not consistent with the overall standards expected of the Company.
3. Compliance Risk - Where privacy, consumer and prudential laws are not adequately complied with by the service provider.
4. Operational Risk- Arising out of technology failure, fraud, error, inadequate financial capacity to fulfil obligations and/ or to provide remedies.
5. 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.
6. 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 Company has entered into contracts that make speedy exits prohibitively expensive.
7. Counter party Risk - Where there is inappropriate underwriting or credit assessments.
8. Contractual Risk - Where the COMPANY may not have the ability to enforce the contract.

9. 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.
  10. Country Risk - Due to the political, social or legal climate creating added risk.
- 5.3 The Company shall ensure sound and responsive risk management practices for effective oversight, due diligence and management of risks arising from the outsourced activities to avoid systemic risks and financial losses or loss of reputation for the Company in the event of failure of service provider to provide a specified service, breach in security/ confidentiality, or non-compliance with legal and regulatory requirements by the service provider.
- 5.4 The departments of the Company availing outsourcing activity shall look into the above broadly classified risks and also look into any other incidental risks attributable to it along with risk mitigation views and submit the same to Risk Management Committee for their necessary evaluation and clearance before final award of contract.

**6. DISCRETION OF OUTSOURCED ACTIVITIES:**

- 6.1 The discretion for outsourcing activities will rest with the Risk Management Committee, who will be responsible for the following:
1. evaluating the risks and materiality of all existing and prospective outsourcing, based on the framework approved by the Board;
  2. developing and implementing sound and prudent outsourcing policies and procedures commensurate with the nature, scope and complexity of the outsourcing activity;
  3. reviewing periodically the effectiveness of policies and procedures;
  4. communicating information pertaining to material outsourcing risks to the Board in a timely manner;
  5. ensuring that contingency plans, based on realistic and probable disruptive scenarios, are in place and tested;
  6. ensuring that there is independent review and audit for compliance with set policies; and
  7. undertaking periodic review of outsourcing arrangements to identify new material outsourcing risks as they arise.
- 6.2 No part of the outsourced activity shall be sub-contracted unless and otherwise specifically stipulated in the contract explicitly. Any proposal by service provided to subcontract, at a later stage, shall be after accessing various risks to which the activity is exposed to and with prior written approval of the Risk Management Committee of the Company.
- 6.3 Access to various data would be restricted to areas required to perform outsourced functions only and in no case should details of the customers and other sensitive data be shared with the agents so as to impair confidentiality.

6.4 A proper cost benefit analysis of the outsourced activity should be done before awarding the outsourcing contract; the decision to outsource or not should be taken with due regard to the cost benefit analysis so done.

**7. EXERCISING DUE-DILIGENCE:**

7.1 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.

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

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

**8. LEGAL OBLIGATIONS AND REGULATORY AND SUPERVISORY REQUIREMENTS:**

8.1 It should be ensured that the ultimate control of the outsourced activity rests with the Company. The following factors, inter alia, need to be specially looked into:

1. Contingency arrangements are in place for critical supplies, services and the outsourcing activity itself;
2. Documentation of contingency plan available, if any; If contingency plan is not available:
  - a) identify alternative third party suppliers;
  - b) prescribe detailed arrangements; and
  - c) initiate actions and alternative approaches, should the suppliers' contingency arrangements fail or be delayed or the suppliers cease trading.

- 8.2 It will be obligatory on the part of service provider / outsourcing agent to inform change in management and the key persons monitoring the arrangements to ensure continuity of operations.
- 8.3 Due diligence in relation to outsourcing, to consider all relevant laws, regulations, guidelines and conditions of approval, licensing or registration should be done. Outsourcing arrangements should not affect the rights of a customer against the Company, including the ability of the customer to obtain Redressal as applicable under relevant laws.
- 8.4 Outsourcing, whether the service provider is located in India or abroad should not impede or interfere with the ability of the Company to effectively oversee and manage its activities or impede the RBI in carrying out its supervisory functions and objectives.
- 8.5 Grievance redressal mechanism shall be as per details specified in the Grievance Redressal Policy of the Company, which in no way should be compromised on account of outsourcing.
- 8.6 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.

**9. AUDIT AND CONTROL:**

The Internal Auditor, while undertaking regular inspection, shall evaluate the selection of service providers, their performance, monitoring mechanism adopted by the concerned department and give suggestions for their improvement during the audit of the respective Departments / Offices.

**10. MATERIAL OUTSOURCING:**

Material outsourcing arrangements are those which, if disrupted, have the potential to significantly impact the business operations, reputation, profitability or customer service. Materiality of outsourcing would be based on:

1. the level of importance to the Company of the activity being outsourced as well as the significance of the risk posed by the same;
2. the potential impact of the outsourcing on the Company on various parameters such as earnings, solvency, liquidity, funding capital and risk profile;
3. 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;
4. the cost of the outsourcing as a proportion of total operating costs of the Company; and
5. 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.

## 11. 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:

1. the contract shall clearly define what activities are going to be outsourced including appropriate service and performance standards;
2. 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;
3. 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;
4. a termination clause and minimum period to execute a termination provision, if deemed necessary, shall be included;
5. 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;
6. there must be contingency plans to ensure business continuity;
7. the contract shall provide for the prior approval/ consent by the Company of the use of subcontractors by the service provider for all or part of an outsourced activity;
8. 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;
9. outsourcing agreements shall include clauses to allow the RBI 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;
10. outsourcing agreement shall also include a clause to recognize the right of the RBI to cause an inspection to be made of a service provider of an Company and its books and account by one or more of its officers or employees or other persons;
11. the outsourcing agreement shall also provide that confidentiality of customer's information shall be maintained even after the contract expires or gets terminated and 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.



## **12. CONFIDENTIALITY AND SECURITY:**

- 12.1 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.
- 12.2 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.
- 12.3 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 Companies/ NBFC's, care shall be taken to build strong safeguards so that there is no comingling of information/ documents, records and assets.
- 12.4 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.
- 12.5 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.

## **13. OFF SHORE OUTSOURCING OF FINANCIAL SERVICES:**

- 13.1 The engagement of service providers in a foreign country exposes the Company to country risk-economic, social and political conditions and events in a foreign country that may adversely affect the Company. To manage the country risk involved in such outsourcing activities, the Company shall take into account and closely monitor government policies and political, social, economic and legal conditions in countries where the service provider is based, both during the risk assessment process and on a continuous basis, and establish sound procedures for dealing with country risk problems. This includes having appropriate contingency and exit strategies. In principle, arrangements shall only be entered into with parties operating in jurisdictions generally upholding confidentiality clauses and agreements. The governing law of the arrangement shall also be clearly specified.
- 13.2 The activities outsourced outside India shall be conducted in a manner so as not to hinder efforts to supervise or reconstruct the India activities of the Company in a timely manner.
- 13.3 As regards the off-shore outsourcing of financial services relating to Indian Operations, the Company shall additionally ensure that:
  1. Where the off-shore service provider is a regulated entity, the relevant off-shore regulator will neither obstruct the arrangement nor object to RBI inspection visits/ visits of Company's internal and external auditors.

2. The availability of records to management and the RBI will withstand the liquidation of either the offshore custodian or the Company in India.
3. The regulatory authority of the offshore location does not have access to the data relating to Indian operations of the Company simply on the ground that the processing is being undertaken there (not applicable if off shore processing is done in the home country of the Company).
4. The jurisdiction of the courts in the off shore location where data is maintained does not extend to the operations of the COMPANY in India on the strength of the fact that the data is being processed there even though the actual transactions are undertaken in India and
5. All original records continue to be maintained in India.

**14. MONITORING AND CONTROL OF OUTSOURCED ACTIVITIES:**

- 14.1 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.
- 14.2 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.
- 14.3 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 policy and relevant RBI Directions issued by RBI in this regard.
- 14.4 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.
- 14.5 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.
- 14.6 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.

**15. REDRESSAL OF GRIEVANCES RELATED TO OUTSOURCED ACTIVITIES:**

- 15.1 The Company has constituted a Grievance Redressal machinery and given wide publicity to it through electronic and print media. The name and contact number of designated grievance redressal officer of the Company is made known and widely publicised. The designated grievance officer should ensure that genuine grievances of customers are redressed promptly without involving delay and will also deal with the issues relating to services provided by the outsourced agency.
- 15.2 Time limit of 30 (thirty) days may 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 are well defined in the Company's Grievance Redressal Policy.

**16. REPORTING REQUIREMENTS:**

The Company would be responsible for making 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.

**17. OUTSOURCING WITHIN THE GROUP / CONGLOMERATE:**

- 17.1 In a group structure, the Company may have back-office and service arrangements/ agreements with group entities e.g. sharing of premises, legal and other professional services, hardware and software applications, centralize back-office functions, outsourcing certain financial services to other group entities, etc. Any service level agreements/ arrangements to be executed between the Company and the group entities, shall be guided within the terms and conditions mentioned in this Policy with precise demarcation of sharing resources, i.e., premises, personnel, etc., subject to prior approvals as per the Companies Act, 2013 (including any enactments/ amendments thereof) required to enter into such related party agreements/ arrangements. Moreover 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.
- 17.2 While entering into such arrangements, Company shall ensure that these:
1. are appropriately documented in written agreements with details like scope of services, charges for the services and maintaining confidentiality of the customer's data;
  2. 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 COMPANY and those of its other group entities are undertaken;
  3. do not compromise the ability to identify and manage risk of the COMPANY on a stand-alone basis;

4. 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
  5. 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.
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- 17.3 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.
  - 17.4 If the premises of the Company are shared with the group entities for the purpose of cross-selling, 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 premises shall mention nature of arrangement of the entity with the Company so that the customers are clear on the seller of the product.
  - 17.5 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.
  - 17.6 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 in this Policy and directions as may be issued by Reserve Bank of India from time to time.

## 18. GENERAL

This Policy will be reviewed periodically, atleast on annual basis, based on the emerging environment.