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# OUTSOURCING POLICY OF HCL CORPORATION

*(Approved in the Board dated 30th September, 2020 and reviewed on 20th March, 2023 and 28th September, 2023)*

The Reserve Bank of India (RBI), on the 9th of November, 2017 released a notification bringing out the **Directions on Managing Risks and Code of Conduct in Outsourcing of Financial Services by Non-Banking Financial Companies (NBFCs) ("Directions").**The Directions have been issued due to ever-increasing need to outsource ancillary activities such as applications processing (loan origination), document processing, marketing and research, supervision of loans, data processing and back office related activities in order to provide the customers best possible services associated with the core business of the company. The Directions have been issued to ensure that there exists no possibility of discrepancy that could affect the customer as well as the NBFC in an adverse manner.

The underlying principles behind these directions are that the Company shall ensure that outsourcing arrangements neither diminish its ability to fulfil its obligations to customers and RBI nor impede effective supervision by RBI. The Company shall have to take steps to ensure that the service provider employs the same high standard of care in performing the services as is expected to be employed by the NBFCs

It is therefore imperative for the Company outsourcing its activities to ensure sound and responsive risk management practices for effective oversight, due diligence and management of risks arising from such outsourced activities. The directions are applicable to material outsourcing arrangements which may be entered into by the Company with a service provider located in India or elsewhere. The service provider may either be a member of the group/ conglomerate to which the Company belongs, or an unrelated party.

**Definitions:**

1. Outsourcing' is defined as the 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.

2. 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:

- 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.

The outsourcing of activities by the Company would **not** require prior approval from RBI, however the Bank may conduct an inspection of such arrangements. The Board of Directors and the Senior Management shall bear the ultimate responsibility for the activities carried out by the service provider. Additionally, the NBFC retains ultimate control over the outsourced activity and is not freed of its obligations by outsourcing of the respective activity.

## INDICATIVE LIST OF ACTIVITIES THAT CAN BE OUTSOURCED

An indicative list of activities that may be considered for outsourcing is as under:

- Application processing (loan origination)
- Document processing
- Documents quality check
- Storage of documents
- Research and marketing
- Data processing
- Back office related activities
- Lead sourcing activity
- Field Investigation
- Legal
- Information Technology

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

## *ACTIVITIES PROHIBITED FROM OUTSOURCING*

The Company is prohibited from outsourcing the following activities:

Core management functions including:

- Internal Audit
- Strategic and Compliance functions
- Decision-making functions such as:
- Determining compliance with KYC norms for opening deposit accounts
- According sanction for loans
- Management of investment portfolio.

These restrictions ensure that the principal activity of the company is not shared with any third party and in no manner compromised. The service level agreements with the group entities must distinctly mention the demarcation of sharing resources i.e. premises, personnel, etc. The risk associated with Company must be adjudged on a stand-alone basis and must not be compromised in any case.

These directions have come in the wake of the several types of risks associated with the outsourcing arrangements, which have been defined as follows:

- **Strategic Risk** – Where the service provider conducts business on its own behalf, inconsistent with the overall strategic goals of the Company.
- **Reputation Risk** – Where the service provided is poor and customer interaction is not consistent with the overall standards expected of the Company.
- **Compliance Risk** – Where privacy, consumer and prudential laws are not adequately complied with by the service provider.
- **Operational Risk**– Arising out of technology failure, fraud, error, inadequate financial capacity to fulfil obligations and/ or to provide remedies.
- **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.
- **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.
- **Counter party Risk** – Where there is inappropriate underwriting or credit assessments.
- **Contractual Risk** – Where the Company may not have the ability to enforce the contract.
- **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.
- **Country Risk** – Due to the political, social or legal climate creating added risk.

Thus, outsourcing to a third party exposes both the Company as well as the customers to numerous risks which can lead to micro-level as well as macro-level breakdown.

Hence, there is a need to carry out the outsourcing activities in a regulated manner to diminish the impact of these risks.

The Directions have been framed in a manner to assure safety to the operations of the Company and isolating it from any of the aforesaid risks.

## OUTSOURCING POLICY AND CODE OF CONDUCT

The Company intending to outsource any of its financial activities shall put in place a comprehensive Board approved outsourcing policy which incorporates, inter alia:

- Criteria for selection of such activities as well as service providers
- Delegation of authority depending on risks and materiality
- Systems to monitor and review the operations of these activities.

## ROLE OF BOARD AND SENIOR MANAGEMENT

### Role of the Board

The Board of the Company, or a Committee of the Board to which powers have been delegated shall be responsible inter alia for the following:

- 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 authorities 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, and safety and soundness and
- deciding on business activities of a material nature to be outsourced, and approving such arrangements.

### Responsibilities of the Senior Management

a) Evaluating the risks and materiality of all existing and prospective outsourcing, based on the framework approved by the Board;
b) Developing and implementing sound and prudent outsourcing policies and procedures commensurate with the nature, scope and complexity of the outsourcing activity;
c) Reviewing periodically the effectiveness of policies and procedures;
d) Communicating information pertaining to material outsourcing risks to the Board in a timely manner;
e) Ensuring that contingency plans, based on realistic and probable disruptive scenarios, are in place and tested;
f) Ensuring that there is independent review and audit for compliance with set policies and
g) Undertaking periodic review of outsourcing arrangements to identify new material outsourcing risks as they arise.

## 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.

The company has entered into an Agreement / Contract dated January 15, 2019 with M/s All E Technologies Private Limited for ERP Services.

## 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. The Company needs 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.

- 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 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 NBFC and its services to the customers.

- In establishing a viable contingency plan, 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.

- 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.

## MONITORING AND 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.

- 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.

- 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.

- 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.

- 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.

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

## APPOINTMENT AND ROLE OF SERVICE PROVIDER

The service provider may either be a member of the group/ conglomerate to which the Company belongs, or an unrelated party. The appointment of a service provider must be done after considering various facets which not only affect the reputation of the Company, but also has a systemic impact. Extensive due diligence must be carried out and the service provider must comply with the criteria mentioned in the outsourcing agreement as well. The process of due diligence must be comprehensive in nature and must consider the financial, qualitative, quantitative, operational and reputational status of the service provider. A brief list of conditions that must be considered at the time of appointment of a service provider, which are as follows:

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;
4. Security and internal control, audit continuity management and coverage, reporting and monitoring environment, business
5. Ensuring due diligence by service provider of its employees.

The Service provider must ensure that it provides the same high standard of care in performing the services as is expected to be employed by the Company itself. They must maintain a robust framework for documenting, maintaining and testing business continuity and recovery procedures and also isolate the Company's information, documents and records, and other assets. Utmost care is to be taken with issues related to handling of public data, hence ensuring that the privacy of such data remains intact at all times and there is no scope of mishandling of the same. Most importantly, the service provider, more specifically the recovery agents, must make sure that they do not carry out any coercive activities in order to seek repayment.

The Directions levy numerous conditions on the operations of the service provider and the main focus of the Directions remain on the fact that the service provided by them satisfies the customer and is not sub-standard in nature.

### Preservation of data

With the increasing number of the masses flocking to Companies in order to carry out financial transactions, confidentiality of data and its security has taken the centre stage in the Directions, with the paramount activity of the Company being to ensure preservation and protection of the security and confidentiality of customer information in the custody or possession of the service provider. It must ensure that the access to customer information by staff of the service provider should be on 'need to know' basis. Further, the company must ensure that no co-mingling of data or document takes place in cases where a single service provider serves various Companies. The Companies are required to review and monitor the security practices and control processes of the service provider on a regular basis and report to RBI, immediately, in case of a breach of security or leakage of data.

## Redress of Grievances related to Outsourced Services

i.The Company 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 the operational level, all Companies shall 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 redressed promptly without involving delay. It shall be clearly indicated that Company's Grievance Redressal Machinery will also deal with the issue relating to services provided by the outsourced agency.

ii. Generally, a time limit of 30 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 shall be placed on the Company's website.