JANASEVA SAHAKARI BANK LTD., HADAPSAR, PUNE

जनसामान्यांची असामान्य बँक, जनसेवेसाठी वचनबद्ध!

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Title of Policy: Comprehensive Outsourcing Policy	**Approved By:** Hon. BOD meeting dated 23.03.2023	**Document ID:** JNSBL/Perso/Pol/01/2022-23
Version: 1.0		**Prepared By:-Abhijit Kelkar** (Accountant Personnel Dept.)
Reviewed By: **Nitin Lonkar** **(Chief Manager Personnel Dept.)**	**Date of Review:**	**Date of Preparation:** 23.03.2023
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1. Introduction:

The RBI vide Circular No. RBI/2021-22/64 DOR.ORG.REC.27121.04.158/2021-22 dated June 28, 2021, has come out with extensive guidelines for 'managing risk in outsourcing of financial services by UCBs.

The UCBs are increasingly using outsourcing as a means for **reducing cost** as well as for availing **specialist expertise**, where these are not available internally. Outsourcing may be defined as a bank's use of a third party to perform activities on a continuous basis, that would normally be undertaken by the Bank itself, now or in the future.

The growing use of third-party services also exposed the bank to various types of risks. Further, outsourcing activities need to be brought within the regulatory purview and the interest of the customers must be protected. It is against this background, the RBI has put in place a set of guidelines vide above mentioned circular, to address the risks that a bank would be exposed to in lieu of growing outsourcing activity and to ensure that the bank and RBI have access to all books, records, and information available with the service provider.

These guidelines are intended to provide direction and guidelines to UCBs, to adopt **sound** and **responsive risk management** practices for effective oversight, due diligence, and management of risk arising from outsourcing financial-related activities.
The underlying principles behind these guidelines are that the UCBs should ensure that, the UCBs should ensure that outsourcing arrangements neither diminish its ability to fulfil its Obligation to customers and regulators, neither impedes effective supervision of RBI. It is therefore imperative that the service provider employs the same standard of care in performing the services as would be employed by them if the activity is conducted by themselves.
Banks that desire to outsource financial services would not require prior approval from RBI whethertheserviceproviderisinIndiaor outsideIndia. Based on these guidelines, the Banks 'Policy for the outsourcing of financial services is being prepared and made effective from the date of approval of the Board.

2 . Applicability:

Banks' outsourced services can be classified into three categories viz. financial services, non-financial services, and technology-related services. The various types of services under each category are as follows.

Financial Services	Non-financial Services	Technology (related)Services
Direct Sales Agents (DSA)	Courier	Maintenance of Lift, EPABX
Recovery Agents (RE)	Catering of staff	CCTV, Note Counting
Cash Management Services	Housekeeping and janitorial	Machin, Xerox, AC, etc.
ATM Services	Security Guards	IT & IT enabled Services
Pigmy Collection	Repairs & maintenance	PPS System
Business Correspondents	Call centre solution etc.	Personalized Cheque Print.
Doorstep Banking Facilities	Generator repair/maint.	UPS & Batter back-up
Marketing & research		Fire fighting
Supervision of loans		CBS etc.
Data processing		
Back-office related work etc.		

3 . Activities that are already outsourced by the Bank:

The RBI guidelines are concerned with managing risks in outsourcing financial services and are not applicable to technology-related issues as also activities not related to financial services like usage of courier, catering of staff, housekeeping and janitorial services, security of premises, movement and archiving of records etc. The Bank has outsourced such activities as per the present policy/practice of the Bank. Suitable contracts and AMCs have been entered into with the respective service provider keeping in view the interest of the Bank.

The Bank has been extensively leveraging Information Technology (IT) and IT-enabled services (ITeS) to support its business models and products and services offered to its customers. The Bank has already outsourced a substantial portion of its IT activities to third parties. Such reliance on IT and IT-enabled services provided by third parties may expose the Bank to significant risks. The RBI has already issued a 'Draft Master Direction on Outsourcing of IT Services' vide circular No.RBI/2022-23/xx DoS. CO.CSITEG/SEC. xx/31.01.015/2022-23 dated June 23, 2022, on risk Management framework for the outsourcing of IT Services, on managing related concentration risk, its periodic risk assessment and aspects of outsourcing of IT Services to foreign service providers. The same will be part of this policy when finalized.

Though the RBI guidelines are concerned with managing risks in outsourcing financial services and are not applicable to technology-related issues, we have included the same, on the premise that ours being fully CBS implemented, due diligence will be exercised while outsourcing such activities and ensure that risks in this regard are minimized.

The Bank has outsourced the following financial services to third parties:

Sr. No	Name of the Vendor	Outsource Services	Department
1	Palande Logistic Network	Courier	Administration
2	Gayatri Chemicals	Pest-Control	Administration
3	Unique Delta Force Security Pvt. Ltd.,	Premises Security	Administration
4	Unisec Management Services Pvt.Ltd.,	Housekeeping	Administration
5	Visel Info-Tech Pvt. Ltd.,	E-Surveillance	Administration
6	Nextgen Security Solutions Pvt. Ltd.	Security System-related Services	BMS Department
7	K D Building Services LLP.	HVAC System-related Services	BMS Department
8	Swegon Bluebox Private Limited.	PAC System	BMS Department
9	Nextgen Security Solutions Pvt. Ltd.	Fire Alarm & Fighting System	BMS Department
10	Sai Systems Pvt. Ltd.	WLD & Ultrasonic Redundant Reppelent system	BMS Department
11	Schindler India Private Limited	Passenger Lift	BMS Department
12	Ariel Elevators Pvt. Ltd.	Car Lift	BMS Department
13	Wipro Pari Private Limited.	Multilevel Stack Parking System	BMS Department
14	Trident Services Pvt. Ltd.	Diesel Generator	BMS Department
15	Reliable Engineers	Electrical Utility Services	BMS Department
16	PAN Systems	EPABX	BMS Department
17	SELP India Pvt. Ltd.,	ATM Card Printing	IT Department
18	Finacus Solutions Pvt. Ltd.,	ATM Switch	IT Department
19	Streamline Power, Vertiv, Ar-em Systems (UPS & Batteries)	Power Backup	IT Department
20	Infinitas Tech /Maximas Infoware	ATM Services	IT Department
21	C-DOT System / Blue Bell / Excel IT	Hardware Vendor for Head Office DC & Branches.	IT Department

Sr. No	Name of the Vendor	Outsource Services	Department
22	Nelito Systems	RTGS/NEFT/Investment for S/W & H/W Support	IT Department
23	BSNL/ TATA/ SIFY	Connectivity Services Provider DC to Branches	IT Department
24	Finacus	CBS	IT Department
25	Sequaretek / Black Box	SOC	IT Department
26	K Green	Dark Web Monitoring	IT Department
27	Dadajee Dhackjee Infotech Pvt. Ltd.,	Check Book Printing	Centralized Account Opening
28	Vsoft Technologies Pvt. Ltd.,	CTS Software	Service Cell

The financial services proposed to be outsourced by our Bank include Recovery Agents (RE), Cash Management Services, Business Correspondents, Doorstep Banking Services, Marketing & Research, Supervision of Loan, Back Office related work etc. While engaging the service providers for these services, utmost care should be taken while carrying out due diligence exercises to ensure that risks in this regard are minimized.

4 . Activities that should not be outsourced:

As per RBI guidelines banks that choose to outsource financial services should however not outsource core management functions including **Policy formulation, Internal Audit and compliance, Compliance with KYC norms, Credit Sanction and management of investment portfolios.** However, where required, experts including former employees could be hired on a contractual basis subject to the Audit Committee of Board/Board being assured that such expertise does not exist within the audit function of the Bank. Any conflict of interest in such matters will be recognized and effectively addressed. **Ownership of audit reports in all cases shall rest with the regular functionaries of the internal audit function.**

5 . Material Outsourcing:

During Annual Financial Inspections, RBI will review the implementation of these guidelines to assess the quality of related risk management systems, particularly in respect of material outsourcing. **Material outsourcing arrangements are those, which / if disrupted, have the potential to significantly impact the business operations, reputation or profitability.** The materiality of outsourcing would be based on:

- The level of importance of the co-operative bank of the activity being outsourced as well as the significance of the risk posed by the same.
- The potential impact of outsourcing on the bank, on various parameters such as earnings, solvency, liquidity, funding capital and risk profile.
- The likely impact on the bank'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 outsourcing is a proportion of the total operating costs of the bank.
- The aggregate exposure to that particular service provider, in cases where the bank outsources various functions to the same service provider.
- The significance of activities outsourced in the context of customer service and protection.

6 . Banks Role:

The outsourcing of any activity by the Bank does not diminish its obligations and those of its Board and CEO along with the Management, who have the ultimate responsibility for the outsourced activity. The Bank would therefore be responsible for the actions of their service provider including actions of Business Correspondents and their retail outlets/ Sub-agents and the confidentiality of information pertaining to the customers that are available with the service provider. The Bank would retain ultimate control of the outsourcing activity. It is imperative for the Bank when performing its due diligence in relation to outsourcing to consider all relevant laws, regulations, guidelines and conditions of approval, licensing or registration.

The grievance redressal mechanism of the Bank shall not be compromised on account of outsourcing. Outsourcing arrangements shall not affect the rights of the customer against the Bank, including the ability of the customer to redress their grievance as applicable under relevant laws. Outsourcing shall not impede or interfere with the ability of the Bank to effectively oversee and manage its activities not should it impede RBI in carrying out its supervisory functions and objectives.

The service provider shall not be owned or controlled by any director or officer or employee of the Bank or their relatives having the same meaning as assigned under the Companies Act 2013 and the Rules framed there under from time to time.

7 . Risk Management practices for outsourced Financial Services:

Need for an Outsourcing Policy.

A bank intending to outsource any of its financial activities should put in place a comprehensive **outsourcing policy**, approved by its Board, which incorporates, inter alia, criteria for the selection of such activities as well as service providers, parameters for defining material outsourcing based on the broad criteria indicated in Para 3, the delegation of authority depending on risks and materiality and systems to monitor and review the operations of these activities.

8 . Role of the Board(Board), and CEO along with the Senior Management:

The Board and CEO along with the Senior Management shall be ultimately responsible for outsourcing operations and for managing risks inherent in such outsourcing relationships. The Board and CEO along with the Management shall have the responsibility to institute an effective governance mechanism and risk management process for all outsourced operations.
The Board of the Bank shall be responsible interalia for:-

- 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.
- Undertaking a regular review of the framework for its efficacy and updating the same to ensure that the outsourcing strategies and arrangements have continued relevance, effectiveness, safety and soundness;
- Deciding on business activities of a material nature to be outsourced, and approving such arrangements.
- Assessment of management competencies to develop sound and responsive outsourcing risk management policies and procedures commensurate with the nature, scope, and complexity of outsourcing arrangements; and
- Setting up the suitable administrative framework of management for the purpose of this policy.

The Senior Management of the Bank would be responsible for:-

- 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 the resin dependent review and audit for compliance with set policies.
- Undertaking a periodic review of outsourcing arrangements to identify new material outsourcing risks, as they arise.

9 . Evaluation of the Risks:

The key risks in outsourcing that need to be evaluated by the bank are:-

a) **Strategic Risk**–The service provider may conduct business on its behalf, which is consistent with the overall strategic goals of the bank.

b) **Reputation Risk**–Poor service from the service provider, its customer interaction not being consistent with the overall standards of the bank.

c) **Compliance Risk**–Privacy, consumer and prudential laws not adequately complied with.

d) **Operational Risk** –A rising due to technology failure, fraud, error, inadequate financial capacity to fulfil obligations and/or provider remedies.

e) **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.

f) **Exit Strategy Risk** – This could arise from over-reliance on one firm, the loss of relevant skills in the bank itself preventing it from bringing the activity back in-house and contracts entered into wherein speedy exits would be prohibitively expensive.

g) **Counterparty Risk**– Due to inappropriate underwriting or credit assessments.

h) **Country Risk** – Due to political, social or legal climate creating added risk.

i) **Contractual Risk** – arising from whether or not the bank has the ability to enforce the contract.

j) **Concentration and Systemic Risk** – Due to lack of control of individual banks over a service provider, more so when the overall banking industry has considerable exposure to one service provider.

10. Evaluating the Capability of the Service Provider:

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

Due Diligence should involve an evaluation of all available information about the service provider, including but not limited to the following:-

- Past experience and competence to implement and support the proposed activity over the contract period.
- Financial soundness and ability to service commitments even under adverse conditions.
- Business reputation and culture, compliance, complaints and outstanding or potential litigation.
- Security and internal control, audit coverage, reporting and monitoring environment, and business continuity management.
- External facts or political, economic, social and legal environment of the jurisdiction in which the service provider operates and other events that may impact service performance.
- Ensuring due diligence by the service provider of its employees.
- Ability to effectively service all the customers with confidentiality where a service provider has exposure to multiple banks.

11. The Out Sourcing Agreement:

The terms and conditions governing the contract between the bank and the service provider should be carefully defined in written agreements and vetted by the bank's legal counsel on the illegal effect and enforceability. Every such agreement should address the risks and risk mitigation strategies. The agreement should be sufficiently flexible to allow the bank 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 should also bring out the nature of the 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 what activities are going to be outsourced, including appropriate service and performance standards.
- The bank must ensure that it has the ability to access all books, records and information relevant to the outsourcing activity available with the service provider.
- The contract should provide for continuous monitoring and assessment by the bank of the service provider so that any necessary corrective measures can be taken immediately.
- A termination clause and minimum periods to execute at 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 contract should provide for the prior approval/consent by the bank of the use of the sub-contractor by the service provider for all or part of the outsourcing activity.

- Provide the bank 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 bank.
- Outsourcing agreements should include clauses to allow the Reserve Bank of India or persons authorized by it to access the bank's documents, records of transactions,
- and other necessary information given to, stored or processed by the service provider, within a reasonable time.
- An outsourcing agreement should also include a clause to recognize the right of the Reserve Bank to cause an in-section to be made of a service provider of a bank and its books and account by one or more of its officers or employees or other persons.
- The outsourcing agreement should also provide that the confidentiality of customers' information should be maintained even after the contract expires or gets terminated.
- The outsourcing agreement should provide for the preservation of documents and data by the service provider in accordance with the legal/regulatory obligation of the bank in this regard.

12 . Confidentiality and Security:

Public confidence and customer trust in the bank is a prerequisite for the stability and reputation of the bank. Hence the bank should seek to ensure the preservation and protection of the security and confidentiality of customer information in the custody or possession of the service provider.

Access to customer information by staff of the service provider should be on a 'need to know basis, i.e., limited to those areas where the information is required in order to perform the outsourced function.

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

The bank should 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.

The bank should immediately notify RBI in the event of any breach of security and leakage of confidential customer-related information. In the eventualities, the bank would be liable to its customers for any damage.

13 . Business Continuity and Management of Disaster Recovery Plan:

The Bank requires its service providers to develop and establish a robust framework for documenting, maintaining and testing business continuity and recovery procedures. It shall be ensured that the service providers shall periodically test the Business Continuity and Recovery Plan. Joint testing and recovery exercises with the service provider shall be conducted at mutually agreed frequency but at least **annually.**

In order to mitigate the risk of unexpected termination of the outsourcing agreement or liquidation of the service provider, the Bank 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 Bank and service provider.

In establishing a viable contingency plan, the Bank 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.

The Bank shall ensure that, in adverse conditions and/or termination of the contract, all documents, records of transactions and information given to the service provider and assets of the Bank shall be removed from the possession of the service provider in order to enable the Bank to continue its business operations; or deleted. Destroyed or rendered unusable.

14. Monitoring and Control of Outsourced Activities:

The Bank shall put in place a management structure to monitor and control its outsourcing activities. It shall also be ensured that outsourcing agreements with the service provider contain provisions to address their monitoring and control of outsourced activities.

The central record of all material outsourcing that is readily accessible for review by The Board and CEO along with the management of the Bank shall be maintained. The records shall be updated promptly and half-yearly reviews shall have to be placed before the Board.

Regular audits at least annually by either the internal auditors or external auditors of the bank shall assess the adequacy of the risk management practices adopted in overseeing and managing the outsourcing arrangements, the Bank's compliance with its risk management framework and this policy.

The Bank 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 the provider should highlight any deterioration or breach in performance standards, confidentiality and security, and business continuity preparedness. The Bank would also submit an annual compliance Certificate giving the particulars of outsourcing contracts, the prescribed periodicity of an audit by an internal/external auditor, major findings of the audit and action taken through the Board, to the Regional Office of RBI.

The event of termination of any outsourcing agreement for any reason where the service provider deals with customers shall be publicized by displaying at a prominent place in the branches and on the Bank's website so as to ensure that the customer does not continue to deal with the service provider.

Certain cases, like outsourcing cash management, might involve the reconciliation of transactions between the bank, the service provider and its sub-contractors. In such cases, the bank shall ensure reconciliation of transactions between the Bank and the service provider is carried out as advised in RBI guidelines on 'Outsourcing of Cash Management-Reconciliationof Transactions' dated May 14, 2019, as amended from time to time.

A robust system of internal audit of all outsourced activities would be put in place and Monitored at the Board level.

15. Redressal of Grievances related to Outsourced services:

The Bank shall give wide publicity to the Grievance Redressal Machinery within the Bank and also by placing the information on its website. It should be clearly indicated that the bank's Grievance Redressal Machinery will also deal with the issues relating to services provided by the outsourced agencies. The name and contact number of the designated grievances redressal officer of the Bank shall be made known and widely publicized. The designated officer should ensure that the genuine grievances of customers are redressed promptly.

The grievance redressal procedure of the Bank shall be completed within a period of 60 days. If the complaint does not get a satisfactory response from the Bank within 60 days from the date of his lodging the complaint, he will have the option to approach the office of the concerned Banking Ombudsman for redressal of his grievance.

16 . Reporting of transactions to FIU or other competent authorities.

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

17. Centralized List of Outsourced Agents:

If a service provider's services are terminated prematurely before the completion of the contracted period of service, Indian Banks' Association (IBA) would have to be informed of the reasons for termination. IBA would be maintaining a caution list of such service providers for the entire banking industry for sharing among banks.

18 . Review of the Policy:

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

Abhijit Kelkar
Accountant, Personnel Dept.

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Chief Manager, Personnel Dept.

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Shirish Pelekar
Chief Executive Officer(Officiating)

28.03.2023

Hon. Chairman
Board of Directors

संचालक मंडळ
विषय क्र. 2
ठराव क्र. 2/6
दिनांक 28/03/2023 ने मंजूर