Policy on Outsourcing of Financial Services

Of

FDPL FINANCE PRIVATE LIMITED

(FFPL)

Approval Date	Version History	Approval Authority
12-Dec-23	FPCFY24-01	Board of Directors
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A. Introduction

Outsourcing is an arrangement, whereby FDPL Finance Private Limited (the Company/NBFC) will use a third party (either an affiliated entity within the group or an entity that is external to the group) to perform activities on a continuing basis that would normally be undertaken by the Company itself, now or in the future. This includes arrangements for a limited period.

This policy contains the criteria for selection of financial activities that may be outsourced as well as service providers and the systems to be put in place to monitor and review the operation of outsourced activities.

This policy is based on the Master Direction NBFCs-Base Layer regulations prescribed under the Master Direction – Reserve Bank of India (Non-Banking Financial Company–Scale Based Regulation) Directions, 2023, as amended from time to time.

This Policy has been approved by the Board of Directors. Any changes to this Policy would require approval of the Board.

B. Objectives of the Policy

The objectives of the Outsourcing Policy (the "Policy") are to

(i) ensure effective oversight, due diligence and management of risks arising from outsourcing and

(ii) ensure that the interests of the customers of the Company are protected at all times.

C. Key Principles

(i) The key principles of the outsourcing policy are outlined below.

(ii) The Company would ensure that outsourcing arrangements neither diminish its ability to fulfill its obligations to customers and Reserve Bank of India (RBI) nor impede effective supervision by RBI.

(iii) The Company would ensure that the service provider employs the same high standards of care in performing the services as would be employed by the Company itself. Accordingly, the Company would not engage in outsourcing its activities that would result in its internal control, business conduct or reputation being compromised or weakened.

(iv) The Company would retain ultimate control of the outsourced activity. While outsourcing any activity, the Company would ensure that it has access to all relevant records and information available with the service provider.

(v) The grievance redressal mechanism in the Company would not, in any way, be compromised on account of outsourcing.

(vi) The Company would ensure the preservation and protection of the security and confidentiality of customer information in the custody or possession of the service provider.

(vii) The Board of Directors would have the ultimate responsibility for the outsourced activity.

(viii) The Policy will be reviewed on an annual basis.

D. Indicative List of Activities that can be outsourced

The guidelines contained in this Policy are applicable to material outsourcing arrangements entered into by the Company with a service provider located in India or elsewhere. The service provider may either be a group company or an unrelated party.

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

(i) Application processing (loan origination)
(ii) Document processing
(iii) Storage of documents
(iv) Research and marketing
(v) Supervision of loans
(vi) Collection
(vii) Recovery and repossession
(viii) Data processing
(ix) Other Back office related activities
(x) Lead sourcing activity
(xi) Field Investigation

E. Activities that cannot be outsourced

In conformity with RBI guidelines, the Company shall not outsource core management functions including:

(i) Strategic and decision-making functions such as underwriting and sanctioning of loans
(ii) Management of investment portfolio
(iii) Internal Audit (Internal auditors can be appointed on a contract basis)
(iv) Compliance functions such as determining compliance with KYC norms for opening of accounts

F. Outsourcing to Digital Platforms

In case the Company lends through outsourced lending platforms, it would adhere to the Fair Practices Code in letter and spirit and also the guidelines laid down in this Policy. Wherever the Company engages digital lending platforms as its agents to source borrowers and/ or to recover dues, it would adhere to the following:

Names of digital lending platforms engaged as agents shall be disclosed on the Company's website.

(i) Digital lending platforms engaged as agents would be directed to disclose upfront to the customer that they are acting on behalf of the Company.
(ii) The Company shall issue a sanction letter / KFS to the borrower on its letter head, immediately after sanction but before execution of the loan agreement.
(iii) A copy of the loan agreement along with a copy of each of all enclosures quoted in the loan agreement would be furnished to all borrowers at the time of sanction/ disbursement of loans.
(iv) The Company would ensure effective oversight and monitoring over the digital lending platforms whose services are engaged.
(v) The Company would ensure that adequate efforts are made towards creation of awareness about the grievance redressal mechanism.

H. Role of the Board, Senior Management

Governance	Responsibilities
Board of Directors or a Committee of the Board	Responsible for The effective management and oversight of the outsourcing arrangement (i) Undertake regular review of outsourcing strategies & arrangements for their continued relevance, safety & soundness (ii) Decide on business activities of a material nature to be outsourced and approve such agreements
Senior Management	Responsible for (i) Evaluate the risks and materiality of all existing and prospective outsourcing, based on the framework approved by the Board (ii) Develop and implement sound and prudent outsourcing policies and procedures commensurate with the nature, scope and complexity of the outsourcing activity (iii) Review of outsourcing arrangements to identify material risks (iv) Periodically review the effectiveness of policies and procedures (v) Ensuring that contingency plans are in place and tested (vi) Ensure that there is independent review and audit for compliance with set policies

I. Evaluation of Materiality

Material outsourcing arrangements are those which, if disrupted, have the potential to significantly impact the business operations, reputation or profitability. To evaluate the materiality of the outsourcing arrangement, the Company would consider the following aspects:

(i) The level of importance of the activity being outsourced.
(ii) Potential impact of the outsourcing on the Company on various parameters such as earnings, solvency, liquidity, funding capital and risk profile.
(iii) 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.
(iv) The cost of outsourcing as a proportion of total operating costs of the Company.
(v) The aggregate exposure to a particular service provider, in cases where the Company outsources various functions to the same service provider.
(vi) The significance of activities outsourced in the context of customer service and protection.

J. Evaluation of Capability of the Service Provider

Capabilities of service provider shall be assessed on following parameters (indicative list):

(i) Expertise, Vintage of operations of the Service Provider handling the relevant business
(ii) The Service Provider's business reputation and track record in undertaking similar work in the recent past and competence to implement and support the proposed activity over the contracted period
(iii) Financial soundness and ability to meet service commitments even under adverse conditions
(iv) Track record of compliance and outstanding or potential litigations

Where possible, the Company would obtain independent reviews and market feedback on the service provider to supplement its own findings.

(v) The Company would ensure that the service providers' systems are compatible with that of its own and their standard of performance including in the area of customer service is also acceptable to the Company.

(vi) The Company would also consider if there is undue concentration of outsourcing arrangements with a single service provider.

(vii) The service provider, if not a group company, shall not be owned or controlled by any director of the Company or their relatives.

(viii) In considering renewal of an outsourcing arrangement, shall perform appropriate due diligence to assess the capability of the Service Provider to comply with obligations in the outsourcing agreement.

K. The Outsourcing Agreement

The terms and conditions governing the contract between the Company and the service provider would be carefully defined in the agreement. The agreement would, inter alia, contain the following provisions:

(i) The activities proposed to be outsourced including the appropriate service and performance standards.

(ii) Risks and risk mitigation strategies.

(iii) Continuous monitoring and assessment by the company of the service provider so that any necessary corrective measures could be taken immediately.

(iv) Contingency plans to ensure business continuity. An appropriate level of control and right to intervene with appropriate measures to continue the business operations of the Company without incurring prohibitive expenses and without any break in services to the customers of the Company;

(v) A notice period in order to mitigate the risk of unexpected termination thereof or liquidation of the Service Provider.

(vi) Provision relating to prior approval / consent by the company for use of sub-contractors by the service provider for all or any part of an outsourced activity.

(vii) A provision to the effect 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;

(viii) A clause allowing RBI 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.

(ix) A clause to recognize the right of RBI to cause an inspection to be made of a service provider of the company and its books and accounts by officials of RBI or other authorised persons.

(x) Dispute resolution process, including events of default, and the indemnities, remedies and recourse of the respective parties.

(xi) Clauses relating to default, termination (including the minimum period to execute a termination provision) and early exit to allow the Company to terminate the agreement.

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

(xiii) A provision to the effect that confidentiality of customer's required information would be maintained even after the contract expires or gets terminated.

(xiv) Provision relating to preservation of documents and data by the service provider in accordance with the legal/regulatory obligations of the Company.

(xv) Right of the Company 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.

(xvi) The Agreement would be sufficiently flexible so as allow the Company to retain an appropriate level of control over the outsourcing arrangement and the right to intervene with appropriate measures to meet legal and regulatory obligations.

L. Confidentiality and Security

Confidentiality of customer information is a pre-requisite for the stability and reputation of the Company, and therefore, the Company shall ensure that:

(i) Access to customer information by the staff of the service provider would 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.
(ii) Any information disclosed should be used strictly for the purpose for which they were disclosed by the Company.
(iii) The Company would 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.
(iv) The Company would ensure that the service provider is able to isolate and clearly identify the company's customer information, documents and records to protect the confidentiality of the information. If the service provider acts as an outsourcing agent for multiple NBFCs, care would be taken to build strong safeguards so that there is no co-mingling of information/ documents and records.
(v) The Company would immediately notify RBI in the event of any breach of security and leakage of confidential customer related information.

M. Risks in Outsourcing

Outsourcing activities to third parties carry certain inherent risks. Failure in providing a specified service, breach in security/confidentiality or non-compliance with legal and regulatory requirements by the service provider may lead to financial and reputational losses for the organization. Therefore, the organization shall ensure effective evaluation and management of the following risks associated with outsourcing risk:

(i) **Strategic Risk**: The service provider may conduct operations which are inconsistent with the overall strategic goals of the Company. Loss of relevant skills in the company may prevent it from bringing the outsourced activity back in the Company.
(ii) **Reputation Risk**: Risk of loss of company's reputation when the service delivered by the service provider is of poor quality and is not consistent with the standards of the Company.
(iii) **Compliance Risk:** Privacy, consumer and prudential guidelines not adequately complied with.
(iv) **Operational Risk**: Risk arising from technology failure, fraud and error, lack of adequate financial capacity of the service provider to fulfill obligations or provide remedies for such inadequacy.
(v) **Legal Risk**: This 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.
(vi) **Exit Strategy Risk:** This could arise from over-reliance on one firm and contracts entered wherein speedy exits would be prohibitively expensive.
(vii) **Counterparty Risk:** Risk arising out of inappropriate underwriting or credit assessments.
(viii) **Country Risk:** Risk arising out of any significant change in political, social, or legal climate.
(ix) **Contractual Risk:** Risk arising out of legal gaps in contract, wherein the company is not able to enforce the contract on the service provider

N. Responsibilities of Direct Sales Agents (DSA) / Direct Marketing Agents (DMA) /

I. The Direct Sales Agents (DSA)/ Direct Marketing Agents (DMA)/ Recovery Agents (RA) engaged by the Company shall not resort to:

(x) intimidation or harassment of any kind, either verbal or physical, against any person in their debt collection efforts;

(xi) acts intended to humiliate publicly or intrude the privacy of the debtors' family members, referees and friends;
(xii) making threatening and anonymous calls; or
(xiii) making false and misleading representations.

II. The Company would ensure that the DSA/ DMA / Recovery Agents are properly trained to handle their responsibilities with care and sensitivity, particularly aspects such as soliciting customers, hours of calling, privacy of customer information and conveying the correct terms and conditions of the products on offer.

III. The Company would put in place a Board approved Code of Conduct for DSA/DMA/ Recovery Agents and obtain their undertaking to abide by the Code.

IV. The Recovery Agents would adhere to the extant instructions on the Fair Practices Code adopted by the Company for collection of dues and repossession of security.

O. Business Continuity and Management of Disaster Recovery Plan

(i) The Company shall require its service providers to develop and establish a robust framework for documenting, maintaining and testing business continuity and recovery procedures.
(ii) The Company would ensure that the Service Provider regularly tests the Business Continuity and Disaster Recovery Plan. The Company would also conduct occasional joint testing and recovery exercises with the service provider.
(iii) The Company would ensure that alternative Service Providers are available or there is a possibility of bringing the outsourced activity back in-house in case of emergency.
(iv) The Company would ensure that the service provider is able to isolate the Company's information, documents and records. This will enable the Company, in appropriate situations, to retrieve all documents and information given to the service provider in order to continue its business.

P. Monitoring of Outsourced Activities

(i) A central record of all material outsourcing, that is readily accessible for review by the Board and senior management of the Company, would be maintained. The records would be updated promptly and half yearly reviews will be placed before the Board of Directors.
(ii) Regular audits would be undertaken by either the internal auditors or external auditors of the Company to assess the adequacy of risk management practices adopted in overseeing and managing the outsourcing arrangement. The observations of the auditors would be placed before the Board of Directors.
(iii) The Company would review the financial and operational condition of the service provider annually. The purpose of this review would be to assess the service provider's ability to continue to meet the outsourcing obligations and identify any deterioration or breach in performance standards, confidentiality and security, and in business continuity preparedness.
(iv) In the event of termination of an outsourcing agreement, in cases where the service provider deals with customers, the same would be publicized by displaying at a prominent place in the Company's office, posting it on the web-site and informing the customers so as to ensure that the customers do not continue to deal with the said service provider.
(v) 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, the Company will ensure timely reconciliation of transactions with the service provider (and/ or its subcontractor), are carried out in a timely manner. An ageing analysis of entries pending reconciliation with outsourced vendors shall be reviewed by the Finance Controller and the Company shall make efforts to reduce the old outstanding items therein at the earliest.
(vi) The Company would put in place a robust system of internal audit of all outsourced activities, which would be monitored by its Finance Controller.

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Q. Redressal of Grievances related to Outsourced Services

The grievance redressal mechanism, as laid down in the Fair Practices Code and the Grievance Redressal Policy, would also apply to issues related to services provided by outsourced agencies.

R. Reporting of transactions to Financial Intelligence Unit (FIU) or other competent authorities

The Company would submit Currency Transactions Reports and Suspicious Transactions Reports, if any, to FIU or any other competent authority in respect of the Company's customer related activities carried out by the Service Providers.

S. Outsourcing to a Group Entity

In case of outsourcing of any activity within the group companies, the Company shall ensure that:

(i) Arm's length distance is maintained in such outsourcing in terms of premises, manpower, decision-making, record keeping, etc. for avoidance of potential conflict of interests between the Company and such Service Provider and accordingly necessary disclosures in this regard shall be made as part of the outsourcing agreement;
(ii) The customers are informed specifically about the company which is actually offering the product/ service in case of involvement of multiple group entities involved or cross selling of products;
(iii) The outsourcing agreement would address the provisions including scope of services, charges for the services and maintaining confidentiality of the customer's data;
(iv) The arrangement shall not lead to any confusion to the customers as to 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;
(v) The arrangement shall not compromise the ability to identify and manage risk of the Company on a stand-alone basis;
(vi) The arrangement shall not prevent RBI from being able to obtain information required for the supervision of the Company or pertaining to the group as a whole;
(vii) The Company's ability to carry out its 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;
(viii) If the premises of the Company are shared with group entities, the Company will ensure that its identification is distinctly visible to the customers.
(ix) 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.
(x) 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 with respect to other service providers in this Policy.

T. Off-shore outsourcing of financial services

In case of offshore outsourcing of the financial services, particularly relating to Indian Operations, the Company shall ensure that:

(i) The Company takes into account and closely monitors the government policies and political, social, economic and legal conditions in the 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. The Company would have in place appropriate contingency and exit strategies.
(ii) Such arrangements would be entered into only with the parties operating in jurisdictions generally upholding confidentiality clauses and agreements. The governing law of the arrangement shall also be clearly specified in the agreement.

(iii) The outsourced activities are conducted in a manner so as not to hinder the efforts to supervise or reconstruct the Indian activities of the Company in a timely manner.
(iv) Where the off-shore Service Provider is a regulated entity, the relevant off-shore regulator will neither obstruct the arrangement nor object to inspection visits of RBI or visits of the Company's internal and external auditors.
(v) The availability of records to management and RBI will withstand the liquidation of either the offshore custodian or the Company in India.
(vi) 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.
(vii) The jurisdiction of the courts in the off-shore location where data is maintained does not extend to 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.
(viii) All original records will be maintained in India.

U. Review Frequency

This Policy shall be reviewed at regular intervals or as and when considered necessary by the Board of Directors/Committee of the Company.