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**OUTSOURCING OF BUSINESS OPERATIONS
POLICY & PROCEDURES
MANUAL
VERSION II**

Version II

Owner – DGM (Business Development & Fund Mobilization

Approval – Board Of Directors

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OUTSOURCING OF BUSINESS OPERATIONS POLICY & PROCEDURES

1. DEFINITION

Outsourcing Arrangement is an arrangement in which a service provider performs a function /operation or an activity on a continuing basis, where the activity is normally or could be undertaken by LCB Finance Ltd.,

2. AUTHORITY TO OUT SOURCE

- i. The company shall not enter into any outsourcing **arrangement without the prior approval of the Board of Directors.** Any existing arrangements relating to outsourcing core business functions /operations if not approved by the Board of Directors; arrangements should be made to obtain the covering sanctions of the Board for such activity, within six months from 4th September 2018 (CBSL requirement) **THIS AUTHORITY CANNOT BE DELEGATED)** *(Refer Paragraph 7 for Exemptions)*
- ii. Outsourcing arrangements shall be entered into with service a provider who poses the specialized resources, capacity and expertise to perform such activity
- iii. Out sourcing arrangements shall not be entered into with service providers in which substantial interest is held by Directors or employees and/or close relatives of a Director or an employee of the company. Direction No 3 of 2008 “Related party Transaction” will apply when dealing with another related company (Close relative = Spouse and dependent children)
- iv. The Management when recommending to the Board of Directors to outsource any business function / operation shall justify/ report / comment on among others in the relevant Board Paper on the following; having gathered sufficient information to the nature of the complexities of the activity to be outsourced
 - (a) The Nature of Business function / operation to be outsourced
 - (b) The Unit attending to the activity described under one above.
 - (c) The underlying reason to outsource (Cost Saving, Enhance Efficiency, Better Capabilities, Inadequate resources in - house etc.,)
 - (d) Confirm that quotations from 3 service providers have been obtained (Refer note below)
 - (e) Confirm that the applicants have been provided with the detailed specifications applicable to the business function/ operation to be out sourced and the required standards applicable, and have also called for their experience in providing such services in the past to other financial institutions with emphasis on Licensed Finance Companies
 - (f) Brief summary of the amounts quoted, with justifications for the rejection of quotation where necessary.
 - (g) Justify the selection of the particular service provider confirming that the service provider has the capacity to meet the complexities attached to service and will perform their duties safeguarding our interest and that of our customers where appropriate.
 - (h) Confirm that the appointed service provider has been notified that they will have to abide by to the following conditions where applicable;The Provider shall AVOID;(a) Harassing Customers
 - (b) Using abusive debt collection practices

3. (c) Disclosing Customer information to others (Refer section 61 of the Finance Business Act No 42 of 2011)
- (d) Giving false or misleading information about products / services
- (e) Unduly influence customers or the general public to buy or get involved in the product / services of the company

OUT SOURCING COMMITTEE OF THE MANAGEMENT

There shall be a committee of the Management to decide on the need to outsource activities of the company. The committee shall consist of the following:-

CEO/Executive Director (**Chairman**)
Senior Deputy General Manager
Head of Finance (**Budgetary control**)
Head of IT
Head of Audit
Head of Operations (**Secretary**)
Any other Executive /s connected to the activity to be out sourced
Quorum - All shall participate

TERMS OF REFERENCE - OUT SOURCING COMMITTEE

The Committee shall evaluate / recommend and arrange to obtain approval of the Board of Directors to outsource the selected activity taking into consideration among others the following;

Subject to Paragraph 2 (iv) (a - h) the following attributes shall be evaluated and commented upon in detail when seeking the approval of the Board of Directors to outsource any activity of the company. (*Please refer paragraph 10 below*)

- What the company intend to achieve through the outsourcing of a particular activity. (*The desired benefits of outsourcing may include freeing-up management time to focus on core competencies, adding capacity or specialized skills or , increasing efficiency, managing fluctuation in workflow, lowering costs*).
- Evaluate Vendor's experience of delivering the services similar to the one that the company plans to outsource. (*Call for details of Number of similar projects executed, types of clients current or worked for, available expertise and qualifications of the Management that relates to the activity*)
- Obtain & evaluate samples of work executed. (*Supplier's Client's commendations & references, regard to scope and quality of services provided, the efficiency of the customer support services provided etc.*)
- Ascertain the availability of a single point of contact person to handle queries, feedback, concerns, of the company in relation to their duties
- Obtain & examine documentary evidence (Financial Statements) to support financial stability to prove that the supplier is financially secure and has sufficient working capital to develop and deliver the services required from him.

Depending on the nature of the work to be outsourced it is mandatory ensure that the supplier has the required license or authority relating to the use of any process subject to **Intellectual Property Rights** (This is applicable to IT infrastructure activities, Soft ware etc.,)

4. THE OUT SOURCING LEGALLY BINDING AGREEMENT

The service provider shall enter into a legally binding agreement with the company which should among others include the following:-

- (a) Scope of the outsourcing arrangement including service standards;
- (b) Period of agreement and conditions to renewal/ renegotiation
- (c) Rights and responsibilities of the service provider and the company
- (d) Internal Control and Risk management standards
- (e) Confidentiality and security
- (f) Business continuity management
- (g) Performance Evaluation Mechanism
- (h) Monitoring and control of outsourcing arrangements
- (i) Authority to recover any damage caused to the reputation of the company / assets of the company due to negligence / activities of the service provider
- (j) Audit and inspections
- (k) Dispute resolution
- (l) Default termination and early exit
- (m) Sub Contracting
- (n) Applicable laws ,regulations and prudential requirements

5. THE FOLLOWING FUNCTIONS / OPERATIONS SHALL NOT BE OUTSOURCED

(This requirement is accordance with Direction No 7 of 2018 issued by the Central Bank of Sri Lanka (CBSL))

- (a) Services associated with mobilizing of deposits & withdrawals;
- (b) Assets and Liabilities Management
- (c) Compliance functions;
- (d) Customer Due Diligence (CDD) and Know your customer procedure (KYC)
- (e) Treasury Management
- (f) Risk Management
- (g) Strategic planning and decision making
- (h) Sanctioning of Loans
- (i) Internal Audit (Subject to conditions below)
- (j) Information Technology related services (subject to conditions below)
- (k) Marketing and recovery functions (subject to conditions below)
- (l) CBSL may introduce other functions /operations or activities if the Monetary Board determine.

Conditions referred to under 4 (i) (j) and (k) above

Outsourcing Internal Audit (4 –(i) above) There is no need to outsource Internal Audit activities as our policy is have our in-house internal audit department.

Information Technology related services – (4. - j) above)

As we expand our business operations and the Branch net work we may obtain the approval of the Board of Directors to outsource any of the following functions, if the need arises in order obtain, cost savings, and improve efficiency and **better capabilities**. Such requests need the specific recommended by the Head of IT with justifications.

- i. Application / System development, testing, maintenance and support;

- ii. Technology infrastructure management, maintenance and support; iii. Help desk
- iv. Network administration
- v. Disaster recovery support services vi. Data entry operations of non- core business activities
- vii. Electronic banking system(e.g. Internet Banking, Mobile banking and tele- banking development, maintenance and support;
- viii. Web hosting and maintenance ix. Credit/Debit/ Automated Teller Machines (ATM) and card printing;

OUTSOURCING ANY OTHER FUNCTIONS / OPERATIONS OR ACTIVITIES SHALL BE AS DETERMINED BY THE MONETARY BOARD. CBSL AND NOTIFIED

Marketing and recovery functions (4.k above)

If the need arises we shall with the approval of the Board of Directors outsource the captioned activities subject to Paragraphs 2 and 3 above

The company shall ensure that the staff of the service provider who may directly deal with customers are trained to handle their responsibilities with prudence and comply with Finance Business Act Direction No1 of 2018 (Financial Customer Protection Framework)

6. SUSPENSION OF SERVICE PROVIDER

It should be noted that the Central Bank of Sri Lanka has the right to suspend any outsourcing arrangement if they receive any written / verbal complaint with respect of the conduct of any outsourcing service provider, upon investigation.

7. MONITORING AND CONTROLS

Internal Audit shall review activities outsourced to the service provider at regular intervals to ensure compliance with requirements stipulated in outsourcing agreements etc and report to CEO/ Executive Director of any irregularities. These reports shall be the basis to decide on the continuity of such arrangements.

8. EXEMPTIONS

CEO/ Executive Director with SDGM shall decide and approve the outsourcing of the following activities which do not relate to provisioning of financial services.

Mail, Courier, Catering , Housekeeping & Janitorial ,Security, Printing services, Communication, Recruitments on contract and temporary basis, Payroll and Secretarial functions.

9. REGISTER OF OUTSOURCING ARRANGEMENTS AND REPORTING FUTURE REQUIREMENTS

The Manager Administration shall maintain an up – to - date register of all existing outsourcing arrangements

The Manager Administration shall prepare a schedule in consultation with the Management titled “**The List of Functions/ Operations or Activities Proposed to be outsourced**” during the following year and forward same to the Director Central Bank of Sri Lanka Department of Supervision Non Bank Financial Institutions, before the end of the 1st month of the financial year, disclosing the following.

- The Year
- Function/operation / activity to be outsourced
- Name or Service Provider (planned) □ Address
- Proposed date of Commencement □ Period of Agreement
- Deliverables /services performed
- Cost (per annum)

The selection of the service provider shall be subject due diligence requirements stipulated in Customer Due Diligence Rule No1 of 2011 where applicable.

10. CALLING FOR QUOTATIONS/ TENDERS TO OUT SOURCE

Calling for quotations / tenders to outsource services in terms of this manual shall be subject to the related terms and conditions stipulated in the “Procurement Policy & Procedures” manual where appropriate..

Recommendation

Recommended to the Board of Directors to approve adoption of this Manual.

DGM
(Business Development &
Fund Mobilization

CEO/ Executive Director

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