

**WESTERN CAPITAL ADVISORS PRIVATE LTD.**  
**POLICY ON OUTSOURCING OF SERVICES**

**BACKGROUND**

Outsourcing brings in its wake, several risks viz strategic risk, reputation risk, compliance risk, operational risk, legal risk. The failure of the service provider in providing a specific service, breach in confidentiality, or non-compliance with the regulatory requirements by either the service provider or the outsourcing NBFC, can lead to financial losses or loss of reputation and could lead to systemic risk. NBFCs to effectively manage these risks, the Reserve Bank of India had on November 09, 2017 issued directions on managing risks and code of conduct in outsourcing of financial services by NBFCs. The underlying principles behind these directions are that NBFC should ensure that outsourcing arrangements neither diminish its ability to fulfil its obligations to customers and RBI nor impede effective supervision by RBI. NBFCs, therefore, have to take steps to ensure that the service provider employs the same high standard of care in performing services as would have employed by the NBFCs, the activities were conducted within NBFCs and not outsourced.

In view of these directions NBFCs are required to put in place a comprehensive outsourcing policy, which incorporates, inter alia, criteria for selection of outsourced activities as well as service providers, delegation of authority depending on risks and materiality and systems to monitor and review the operations of these activities.

**1. Activities which are proposed to be outsourced**

- Western Capital Advisors Private Limited ('WCAPL' or 'the Company') outsources certain activities to external vendors. The major activities to be outsourced to vendors are:
  - a) Channel partners for sourcing of customers

**2. Activities which cannot be outsourced**

As per extant directions NBFC which choose to outsource financial services should, however, 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 deposit accounts, according sanction for loans (including retail loans) and management of investment portfolio.

**3. 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:

- a. the level of importance to the NBFC of the activity being outsourced as well as the significance of the risk posed by the same;
- b. the potential impact of the outsourcing on the NBFC on various parameters such as earnings, solvency, liquidity, funding capital and risk profile;
- c. the likely impact on the NBFC's reputation and brand value, and ability to achieve its business objectives, strategy and plans, should the service provider fail to perform the service;
- d. the cost of the outsourcing as a proportion of total operating costs of the NBFC;
- e. the aggregate exposure to that particular service provider, in cases where the NBFC outsources various functions to the same service provider and

- f. the significance of activities outsourced in context of customer service and protection.

#### **4. Appointment / Empanelment process**

Every vendor including channel partners shall be empanelled based on the following process. For certain activities like technical evaluation, there can be multiple vendors:

1. The Branch / Hub shall identify agencies performing the above functions and shortlist the same.
2. The agency shall meet the following minimum criteria:
  - a. Minimum relevant experience as may be specified in vendor guidelines (VG).
  - b. Relationship with Banks / NBFCs subject to a minimum number which shall be specified in VG
  - c. References to be provided of existing principals subject to a minimum number which shall be specified in VG
  - d. Financial soundness and ability to serve commitments even under adverse conditions
  - e. Business reputation, culture, complaints and outstanding litigations, if any
  - f. Security and internal control, audit coverage and reporting and monitoring environment
  - g. Due diligence process of its employees
3. Agencies meeting the above criteria shall be shortlisted. The agency should provide a brief profile mentioning qualifications and experience of promoter / key persons, Geographies and limits, Experience, Details of existing empanelment, References, Quotation/ Rates for services provided
4. On receipt of the information, the Branch / Hub Functional Manager shall screen the profile and contact the references provided. They shall also confirm if the rates quoted are in line with the billing rates with the existing principals.
5. On completion of the above, the Branch / Hub Functional Manager shall forward the profile to the Functional Head along with a recommendation.
6. Functional Head shall approve the same.
7. Post-approval, Branch / Hub Functional Manager shall issue an empanelment letter. The letter shall also mention that WCAPL reserves the right to terminate a vendor with / without notice.
8. On acceptance of the letter, the vendor shall sign a service provider agreement with WCAPL. These agreements shall be as per a standard format which shall be rolled out by WCAPL specific to the nature of services provided.
9. Review of empanelled agencies should be carried out on a periodical basis preferably on an annual basis.

#### **5. Terms of Appointment**

Every appointment shall be governed by a set of Terms and Conditions which shall be clearly specified in the appointment letter and outsourcing agreement. The vendor / channel partner is required to abide by the same at all times.

## **6. Access to Internal Resources & Systems**

Unless specifically required, outsourced vendors / channel partners shall not have any access to following assets of WCAPL:

- Systems and Network resources of WCAPL
- Email domain of WCAPL
- Internal policies of WCAPL
- Patents, copyrights and proprietary software of WCAPL
- Any other asset or sensitive information belonging to WCAPL

Any access to the above must be specifically approved by the Chief Executive Officer (CEO) or Chief Risk Officer of the Company.

## **7. MANAGEMENT & CONTROL – Vendors**

- a. Random checks on the reports of the agencies shall be carried out by shadow checks. The frequency of such checks shall be specified as per vendor guidelines. A log of these checks shall be maintained.
- b. In addition to the random checks and shadow checks mentioned above, database of key information provided by vendors shall be built up by at the Branch / Hub level as per vendor guidelines. An example of such a database is the property rate database.
- c. On a random basis, the reports submitted by vendors shall be compared with the rates as per the database and any significant variation shall be highlighted to the vendor and reason obtained. Details of such instances along with reason provided by vendor shall also be marked to the respective Functional Head for information and depending on frequency/ severity of such instances, Functional Head may decide on necessary action which could include termination of the vendor.

## **Channel Partners**

The monitoring and control of Channel partners shall be carried out as per guidelines and performance indicators rolled out by Head-Business.

## **8. COMPLAINT HANDLING & GRIEVANCE REDRESSAL**

All vendors and channel partners (including employees and associates) are required to abide by WCAPL's fair practices code and any specific code of conduct which may be rolled out from time to time.

Any complaint raised by a customer shall be immediately forwarded to the designated Nodal officer of WCAPL for redressal. Depending on the severity of the complaint and impact, suitable course of action will be decided. MIS on such complaints shall be reported to the Board on a periodical basis.

## **9. EXPIRY, RENEWAL, VOLUNTARY & INVOLUNTARY SEPARATION**

Every outsourcing service provider shall be guided by the terms of contract specified in the agreement signed with WCAPL. The tenure of the service provider shall also be specified in the agreement and the service

provided is required to renew the same by way of a fresh agreement or exchange of letters before the expiry of the same.

In case of voluntary separation at the request of the service provider, the terms of contract shall specify the notice requirements including prior notice period. The service provider is required to return all assets of WCAPL which are in his possession and submit all pending bills at the end of the notice period.

An instance of involuntary separation may take place primarily due to:

- Violation of any terms of contract
- Any information received by WCAPL wherein the continuation of the service provider shall be detrimental to WCAPL
- Any other reason at the discretion of the Management

In such instances, WCAPL may at its discretion terminate the service provider agreement either with or without prior intimation. On cessation of services, the service provider is required to return all assets of WCAPL which are in his possession and submit all pending bills.

## **11. RISKS & CONTROLS**

Company should evaluate and guard against strategic risk, compliance risk, reputation risk, operation risk etc while outsourcing any activities through internal control processes. An indicative list of Risk and controls is defined below:

Sr No	Expected Risk	Controls
1	Compromise by vendor / channel partner with customer resulting in financial / non-financial loss to WCAPL	Proper reference checks of vendor / channel partner prior to appointment
2	Leakage of internal information / policies of WCAPL	Controlled / Limited access to Internal systems/ documents and email domain of WCAPL
3	Customer service issues and likely reputation risk associated	Mechanism for handling complaints / grievances
4	Discrepancies in services / reports submitted by vendor	Dip test / Random/Sample checks on vendor reports. Appropriate action to be taken based on severity of event.
5	Incorrect / Inflated bills submitted by vendor	Vetting of bills by Branch/ Hub and cross-vetting by Functional Head

## **12. OUTSOURCING AGREEMENT**

The terms and conditions governing the contract between the Company and service provider should be carefully defined in the written agreements. Every such agreement should address the risks and risk mitigation strategies. The agreement should be sufficiently flexible to allow the Company to retain an appropriate level of control over the outsourcing and right to intervene with appropriate measures to meet legal and regulatory obligations. The agreement should also bring out the nature of legal relationship between the parties.

## **13. CONFIDENTIALITY AND SECURITY**

Public confidence and customer trust in the NBFC are a prerequisite for the stability and reputation of the NBFC. Hence the Company 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 'need to know' basis, i.e. limited to those areas where the information is required in order to perform the outsourced function.

The Company should 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 NBFCs/banks, care should be taken to build strong safeguards so that there is no commingling of information/documents, records and assets.

The Company 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.

#### **14. RESPONSIBILITIES OF DSA/DMA/RECOVERY AGENTS**

Company should 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, etc.

Company shall put in place a board approved Code of conduct for DSA/ DMA/ Recovery Agents and obtain their undertaking to abide by the code. In addition, Recovery Agents shall adhere to extant instructions on Fair Practices Code for NBFCs as also their own code for collection of dues and repossession of security. It is essential that the Recovery Agents refrain from action that could damage the integrity and reputation of the NBFC and that they observe strict customer confidentiality.

Company and their agents shall not resort to intimidation or harassment of any kind, either verbal or physical, against any person in their debt collection efforts, including acts intended to humiliate publicly or intrude the privacy of the debtors' family members, referees and friends, making threatening and anonymous calls or making false and misleading representations.