

FINQUEST FINANCIAL SOLUTIONS PRIVATE LIMITED

OUTSOURCING POLICY

Finquest Financial Solutions Private Limited

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OUTSOURCING POLICY

1. Introduction

Finquest Financial Solutions Pvt Ltd (“the Company”) is registered with the Reserve Bank of India (RBI) as a Non- Banking Financial Company (NBFC) not accepting public deposits. The Company is a Non -Deposit Taking Systematically Important NBFC (NDSI-NBFC).

During the course of its business activities considering operational conveniences and commercial aspects / reasons, the Company may outsource some of its activities permitted by RBI vide / in accordance with the RBI Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 dated September 1, 2016 (as updated on March 03, 2022), {the Master Directions}. The Board of Directors of the Company has therefore adopted the following Outsourcing Policy.

2. Definitions

- 'Outsourcing': Outsourcing is defined as the use by the Company of a third party (either an affiliated entity within a corporate group or an entity that is external to the corporate group) herein after referred as “the Service Provider” to perform activities on a continuing basis that would normally be undertaken by the Company itself, now or in the future.

‘Continuing Basis’ includes agreements for a limited period.

- Typically, ‘Outsourced financial services’ includes applications processing (loan origination), document processing, marketing and research, supervision of loans, data processing and back office related activities, recovery, Direct Selling Agent (DSA) besides others.

3. Objectives for bringing outsourced activities and services within regulatory purview

The Reserve Bank of India (RBI) has brought outsourced activities and services within the regulatory purview for the following reasons.

- a) to protect the interest of the customers of the Company as a NDSI -NBFC and
- b) to ensure that the Company and the Reserve Bank of India have access to all relevant books, records and information available with the appointed / engaged service provider.

4. Risks associated with the Outsourcing

- Some key risks associated with outsourcing are Strategic Risk, Reputation Risk, Compliance Risk, Operational Risk, Legal Risk, Exit Strategy Risk, Counterparty Risk, Country Risk, Contractual Risk, Access Risk, Concentration and Systemic Risk.
- The failure of a service provider in providing a specified outsourced service, a breach in security/ confidentiality, or non-compliance with legal and regulatory requirements by the service provider may lead to financial losses or loss of reputation for the Company and may also lead to systemic risks.

5. Risk Mitigation measures:

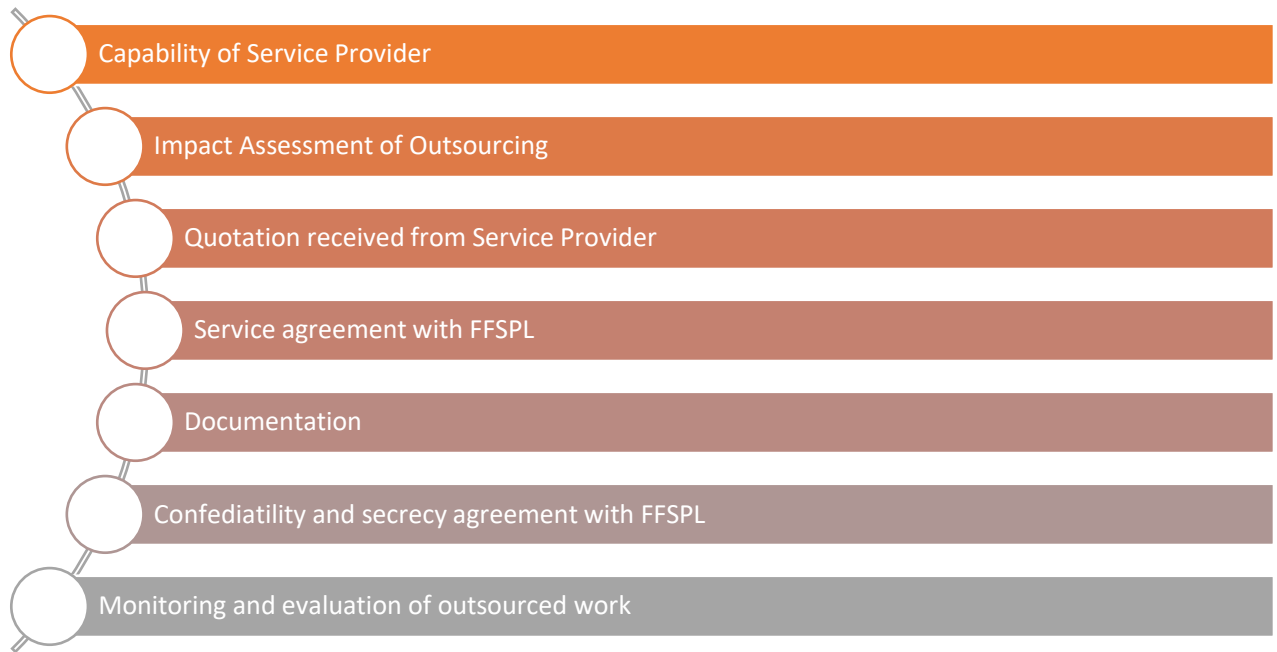
- It is therefore imperative for the Company when outsourcing its activities to ensure sound and responsive Risk Management practices for effective oversight, due diligence and management of risks arising from such outsourced activities. The directions of RBI in this regard are applicable to material 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.
- The underlying principles behind the RBI directions are that the Company being a regulated entity shall ensure that outsourcing arrangements neither diminish its ability to fulfil its obligations to its customers and RBI nor impede effective supervision by RBI.
- The Company shall, therefore, 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 Company, if the activities were conducted by / within the Company and not outsourced. Accordingly, the Company shall not engage in outsourcing that would result in its internal control, business conduct or reputation being compromised or weakened.

6. Applicability of the regulatory directions of RBI

- The regulatory directions of RBI are concerned with managing risks in outsourcing of financial services and are not applicable to technology-related issues and activities not related to financial services, such as usage of courier, catering of staff, housekeeping and janitorial services, security of the premises, movement and archiving of records, etc.
- If the Company desires to outsource financial services would not require prior approval from RBI. However, such arrangements would be subject to on-site/ off- site monitoring and inspection/ scrutiny by the RBI.

7. Activities that shall not be outsourced

- The Company when chooses to outsource financial services shall, 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.
- However, for FFSP in a group/ conglomerate, these functions may be outsourced within the group subject to compliance with instructions / the provisions of Outsourcing within a group / conglomerate.
It is to be noted that while internal audit function itself is a management process, the internal auditors can be on contract.
- The process of outsourcing can be explained in simple way as follow:



8. Material Outsourcing

For the purpose of the RBI Master Directions, 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 outsourcing the said activity;
- the potential impact of the outsourcing on the Company on the various parameters such as earnings, solvency, liquidity, funding capital and risk profile;
- the likely impact on reputation and brand value of the Company and ability to achieve by the Company 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 a single particular service provider, in cases where the Company outsources various functions to the same service provider (concentration of outsourcing services (business) to a single service provider) and
- the significance of activities outsourced in the context of customer service and protection.

9. Role & Regulatory and Supervisory requirements by the Company

- The outsourcing of any activity by the Company does not diminish its obligations, and those of its Board and senior management, who have the ultimate responsibility for the outsourced activity. The Board of Directors of the Company (the Board) shall therefore be responsible for the actions of the service provider(s) of the Company including Direct Sales Agents/ Direct Marketing Agents and recovery agents and the confidentiality of information pertaining to the

customers that is available with the service provider. The Board shall retain ultimate control of the outsourced activity(ies).

- It is imperative for the Company, when performing its due diligence in relation to outsourcing, to consider all relevant laws, regulations, guidelines and conditions of approval, licensing or registration.
- Outsourcing arrangements shall not affect the rights of a customer against the Company including the ability of the customer to obtain redress as applicable under relevant laws. In cases where the customers are required to deal with the service providers in the process of dealing with the Company, the Company shall incorporate a clause in the relative product literature/ brochures, etc., stating that the Company may use the services of agents in sales/ marketing etc. of the products. The role of agents may be indicated in broad terms.
- The service provider shall not impede or interfere with the ability of the Company to effectively oversee and manage its activities nor shall it impede the Reserve Bank of India in carrying out its supervisory functions and objectives.
- FFSPL need to have a robust grievance redress mechanism, which in no way shall be compromised on account of outsourcing.
- The service provider, if not a group company of the Company, shall not be owned or controlled by any director of the Company or their relatives as defined in the Companies Act, 2013.

10. Risk Management practices for Outsourced Financial Services

I. Outsourcing Policy

The Company has put in place a comprehensive outsourcing policy, approved by the Board, which incorporates, inter alia, criteria for selection of such 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.

II. Role of the 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:

1. To approve a framework for evaluation of the risks and materiality of all existing and prospective outsourcing and the policies that apply to such arrangements;
2. To lay down appropriate approval authorities for outsourcing depending on risks and materiality;
3. To set up suitable administrative framework of senior management for the purpose of the directions of RBI in this regard;
4. To undertake regular review of outsourcing strategies and arrangements for their continued relevance, and safety and soundness and
5. To decide on business activities of a material nature to be outsourced, and approving such arrangements.

➤ **Role of the Senior Management**

1. To evaluate the risks and materiality of all existing and prospective outsourcing, based on the framework approved by the Board;
2. To develop and implement sound and prudent outsourcing policies and procedures commensurate with the nature, scope and complexity of the outsourcing activity;
3. To review periodically the effectiveness of policies and procedures of the Company and the service provider;
4. To communicate information pertaining to material outsourcing risks to the Board in a timely manner;
5. To ensure that the contingency plans, based on realistic and probable disruptive scenarios, are in place and tested;
6. To ensure that there is independent review and audit for compliance with set policies and
7. To undertake periodic review of outsourcing arrangements to identify new material outsourcing risks as they arise.

III. Evaluation of the Risks of outsourcing by the Company

The Company shall evaluate and guard against the following risks in outsourcing:

1. Strategic Risk – Where the service provider conducts business on its own behalf, inconsistent with overall strategic goals of the Company.
2. Reputation Risk – Where the service provided is poor and customer interaction is not consistent with the overall standards expected by the Company.
3. Compliance Risk – Where privacy, consumer and prudential laws are not adequately complied with by the service provider.
4. Operational Risk- Arising out of technology failure, fraud, error, inadequate financial capacity to fulfil obligations and/ or to provide remedies.
5. 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.
6. Exit Strategy Risk – Where the Company is over-reliant on one firm, the loss of relevant skills in our company itself preventing it from bringing the activity back in-house and where we have entered into contracts that make speedy exits prohibitively expensive.
7. Counter party Risk – Where there is inappropriate underwriting or credit assessments.
8. Contractual Risk – Where the Company may not have the ability to enforce the contract.
9. Concentration and Systemic Risk – Where the overall NBFC industry has considerable exposure to one service provider and hence the NBFC may lack control over the service provider.
10. Country Risk – Due to the political, social or legal climate creating added risk.

IV. Evaluating the Capability of the Service Provider

- At the time of considering or renewing an outsourcing arrangement, appropriate due diligence to be performed by the Company to assess the capability of the service provider to comply with obligations in the outsourcing agreement. Due diligence shall take into consideration qualitative and quantitative, financial, operational and reputational factors. The Company shall consider whether the service providers' systems are compatible with their own and also whether their standards of performance including in the area of customer service are acceptable to the Company. The Company shall also consider, while evaluating the capability of the service provider, issues relating to undue concentration of outsourcing arrangements with a single service provider. Where possible, the Company shall obtain independent reviews and market feedback on the service provider to supplement its own findings.
- Due diligence shall involve an evaluation of all available information about the service provider, including but not limited to the following:
 - i. past experience and competence to implement and support the proposed activity over the contracted period;
 - ii. financial soundness and ability to service commitments even under adverse conditions;
 - iii. business reputation and culture, compliance, complaints and outstanding or potential litigation;
 - iv. security and internal control, audit coverage, reporting and monitoring environment, business continuity management and
 - v. ensuring due diligence by service provider of its employees.

V. The Outsourcing Service 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 legal counsel / adviser / advocate on the legal effect and enforceability of the Outsourcing Service Agreement. Every such agreement shall 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 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.
- Some of the key provisions of the contract shall be the following:
 - i. the contract shall clearly define what activities are going to be outsourced including appropriate service and performance standards;
 - ii. The Company must ensure it has the ability to access all books, records and information relevant to the outsourced activity available with the service provider;
 - iii. the contract shall provide for continuous monitoring and assessment of the service provider by the Company so that any necessary corrective measure can be taken immediately;
 - iv. Inclusion of a termination clause and minimum period to execute a termination provision, if deemed necessary, ;

- v. To incorporate controls to ensure customer data confidentiality and service providers' liability in case of breach of security and leakage of confidential customer related information;
- vi. there must be contingency plans to ensure business continuity;
- vii. the contract shall provide for the prior approval/ consent by us of the use of subcontractors by the service provider for all or part of an outsourced activity;
- viii. it shall provide the Company with the right to conduct audits on the service provider whether by the internal or external auditors, or by agents appointed by the service provider 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 us;
- ix. outsourcing agreements shall include clauses to allow the Reserve Bank of India or persons authorised by it to access our documents, records of transactions, and other necessary information given to, stored or processed by the service provider within a reasonable time;
- x. outsourcing agreement shall also include a clause to recognise the right of the Reserve Bank to cause an inspection to be made of a service provider of the Company and its books and account by one or more of its officers or employees or other persons;
- xi. the outsourcing agreement shall also provide that confidentiality of customer's information shall be maintained even after the contract expires or gets terminated; and
- xii. The Company shall have necessary provisions to ensure that the service provider preserves documents as required by law and take suitable steps to ensure that its interests are protected in this regard even post termination of the services.

VI. Confidentiality and Security

- Public confidence and customer trust in the Company is a prerequisite for our stability and reputation. Hence, we shall 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 shall 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 shall ensure that the service provider is able to isolate and clearly identify our 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, care shall be taken to build strong safeguards so that there is no comingling of information / documents, records and assets.
- The Company shall 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 Company shall immediately notify RBI in the event of any breach of security and leakage of confidential customer related information. In these eventualities, the Company would be liable to its customers for any damages.

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

- The Company shall 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.
- The Company shall put in place the 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 Company and that they observe strict customer confidentiality.
- The 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.

VIII. Documentation and Business Continuity

- 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, the 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 Company and its services to the customers.
- In establishing a viable contingency plan, the 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 information, documents and records, and other assets of the Company with that of their other clients. 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.

IX. Monitoring and Control of Outsourced Activities

- The Company should have in place a management structure to monitor and control its outsourcing activities. The Company shall ensure that outsourcing agreements with the service provider contain provisions to address the monitoring and control of outsourced activities of the Company by a service provider.
- A central record of all material outsourcing shall be maintained and be readily accessible for review by the Board and senior management of the Company. The records shall be updated promptly and half yearly reviews shall be placed before the Board or Risk Management Committee of the Company.
- 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.
- A robust system of internal audit of all outsourced activities shall also be put in place and monitored by the ACB of the Company.

X. Redress of Grievances related to Outsourced Services

- 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, the Company 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 the Grievance Redressal Machinery of the Company will also deal with the issue relating to services provided by the outsourced agency.
- 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 website of the Company.

11. Outsourcing within a Group/ Conglomerate

- In a group structure, the Company may have back-office and service arrangements/ agreements with group entities e.g. sharing of premises, legal and other professional services, hardware and software applications, centralize back-office functions, outsourcing certain financial services to other group entities, etc. Before entering into such arrangements with group entities, the Company shall have a Board approved policy and also service level agreements/ arrangements with their group entities, which shall also cover demarcation of sharing resources i.e. premises, personnel, etc. Moreover, the customers shall be informed specifically about the company which is actually offering the product/ service, wherever there are multiple group entities involved or any cross selling observed.
- While entering into such arrangements, the Company shall ensure that these:
 1. are appropriately documented in written agreements with details like scope of services, charges for the services and maintaining confidentiality of the customer's data;
 2. do not lead to any confusion to the customers on 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;
 3. do not compromise the ability to identify and manage risk of the Company on a stand-alone basis;
 4. do not prevent the RBI from being able to obtain information required for the supervision of the Company or pertaining to the group as a whole; and
 5. incorporate a clause under the written agreements 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.
- The Company shall ensure that their ability to carry out their 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.
- If the premises of the Company are shared with the group entities for the purpose of cross-selling, the Company shall take measures to ensure that the entity's identification is distinctly visible and clear to the customers. The marketing brochure used by the group entity and verbal communication by its staff / agent in the premises of the Company shall mention nature of arrangement of the entity with the Company so that the customers are clear on the seller of the product.
- The Company shall not publish any advertisement or enter into any agreement stating or suggesting or giving tacit impression that the Company is in any way responsible for the obligations of its group entities.
- 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 above.

12. Off-shore outsourcing of Financial Services

- The engagement of service providers in a foreign country exposes an NBFC to country risk - economic, social and political conditions and events in a foreign country that may adversely affect the NBFC. Such conditions and events could prevent the service provider from carrying out the terms of its agreement with the NBFC. To manage the country risk involved in such outsourcing activities, FFSP shall take into account and closely monitor government policies and political, social, economic and legal conditions in 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. This includes having appropriate contingency and exit strategies. In principle, arrangements shall only be entered into with parties operating in jurisdictions generally upholding confidentiality clauses and agreements. The governing law of the arrangement shall also be clearly specified.

- The activities outsourced outside India shall be conducted in a manner so as not to hinder efforts to supervise or reconstruct the India activities of FFSPL in a timely manner.
- As regards the off-shore outsourcing of financial services relating to Indian Operations, FFSPL shall additionally ensure that
 - a. Where the off-shore service provider is a regulated entity, the relevant off-shore regulator will neither obstruct the arrangement nor object to RBI inspection visits/ visits of NBFCs internal and external auditors.
 - b. The availability of records to management and the RBI will withstand the liquidation of either the offshore custodian or the NBFC in India.
 - c. The regulatory authority of the offshore location does not have access to the data relating to Indian operations of the NBFC simply on the ground that the processing is being undertaken there (not applicable if off shore processing is done in the home country of the NBFC).
 - d. The jurisdiction of the courts in the off shore location where data is maintained does not extend to the operations of the NBFC in India on the strength of the fact that the data is being processed there even though the actual transactions are undertaken in India.
 - e. All original records continue to be maintained in India.

13. Approval/ Review

This policy shall be approved by the Board and reviewed by the Managing Director & Chief Executive Officer of the Company as and when there are any changes introduced by any statutory authority or as and when it is found necessary to change the policy due to business needs.