

Muthoot Mercantile Limited

(A Unit of Muthoot Ninan Group)

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OUTSOURCING POLICY

(1) Introduction

This policy shall be termed as the Outsourcing Policy for Muthoot Mercantile Limited (hereinafter referred to as 'Company'). The terms in this policy shall be considered as defined by the Reserve Bank of India (RBI) in its various directions, guidelines as issued and may be issued from time to time and, or as defined herein below.

With the speedy development and growth in the finance industry, Non-Banking Financial Companies (NBFCs) have been outsourcing various activities to either an affiliated entity within a group or third-party external to the group) to perform activities on continuing basis that would normally be undertaken by the NBFC itself, now or in the future.

Due to outsourcing of various activities, NBFCs are exposed to various risks such as strategic risk, reputation risk, compliance risk, operational risk, legal risk, exit strategy risk, counter party risk, country risk, contractual risk, access risk, concentration and systemic risk. The failure of a service provider in providing a specified service, a breach in security/ confidentiality, or non-compliance with legal and regulatory requirements by the service provider can lead to financial losses or loss of reputation for the Company and could also lead to systemic risks.

An NBFC intending to outsource any of its financial or IT activities shall put in place a comprehensive outsourcing policy, approved by its Board.

(2) Objective of the Policy

The objective of this Policy is to identify the criteria for selection of such activities that may be outsourced as well as selection of Service Provider(s), delegation of authority depending on risks arising out of outsourcing, materiality and systems to monitor, review the operations and management of these risks.

(3) Activities that can be outsourced

A) FINANCIAL SERVICES

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

- Field investigation
- Verification of documents, fraud control, customer profile, credit checks
- Managing customer queries
- Marketing of Company's products
- Recruitment, selection and training of personnel
- Background verification of personnel for employment
- Software management, maintenance and support
- Application development, maintenance and testing
- Maintenance services
- Legal services
- IT Services / IT enabled Services/IT Activities

B) Information technology services (IT services)

I.

- i. IT infrastructure management
- ii. Network and Security Solution, maintenance (Hardware, Software)
- iii. Services and Operations related to Data Centre
- iv. Cloud Computing Services
- v. Management of IT Infrastructure and Technology Services associate with payment ecosystem.

II. Outsourcing shall not apply to the following IT services

- i. External audit services such as VAPT, IS AUDIT and security review
- ii. SMS Gateways
- iii. Acquisition of IT Software, product or application (eg., CBS, Database and Security Solutions)
- iv. Any maintenance services (including security patches and bug fixes) for IT infrastructure or licenced products provided by the original Equipment manufacturers.

The above list is indicative and not exhaustive. The Company may outsource any activities other than those mentioned above which are permissible to be outsourced as per the RBI guidelines.

(4) Activities that shall not be outsourced

As per RBI directions, the Company should not outsource its core management functions or activities including Internal Audit, Strategic and compliance functions and decision-making functions such as determining compliance with KYC norms for sanction for loans and management of investment portfolio.

(5) Material outsourcing

Material outsourcing arrangements are those, which if disrupted, have the potential to significantly impact the business operations, reputation or profitability. Materiality

of outsourcing would be based on:

- (a) The level of importance and significance of the risk to the Company, of the activity being outsourced.
- (b) The potential impact of the outsourcing on the Company, on various parameters such as, earnings, solvency, liquidity, funding capital and risk profile.
- (c) The likely impact on the Company'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 Company.
- (e) The aggregate exposure to that particular Service Provider, in case where the Company outsources various functions to the same Service Provider.
- (f) The significance of activities outsourced in context of customer service and protection.

(6) Risks arising out of outsourcing

Outsourcing of financial services exposes the Company to number of risks which need to be evaluated and effectively managed and mitigated. The key risk that may arises due to outsourcing are:

- (a) Strategic Risk - The Service Provider may conduct business on its behalf, which is inconsistent with the overall strategic goals of the Company.
- (b) Reputation Risk - Poor service from the Service Provider and its customer interaction may not be consistent with the overall standards expected by the Company.
- (c) Compliance Risk – Privacy, consumer and prudential laws may not be adequately complied with by the Service Provider.
- (d) Operation Risk - Arising due to technology failure, fraud, error, inadequate financial capacity of Service Provider to fulfil obligations and/or provide remedies.
- (e) 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.
- (f) Exit Strategy Risk - This could arise from over-reliance on one firm, the loss of relevant skills in the Company itself preventing it from bringing the activity back in-house and contracts entered into wherein speedy exits would be prohibitively expensive.
- (g) Counter party Risk – Due to inappropriate underwriting or credit assessments.
- (h) Contractual Risk – arising from whether or not the Company has the ability to enforce the contract.
- (i) Concentration and Systemic Risk – Due to lack of control of individual Company over a Service Provider, more so when overall financing industry has considerable exposure to one Service Provider.
- (j) Confidentiality and Security of Information:

- a) Company shall seek to ensure the confidentiality, Security, Preservation and protection of customer data in the possession of service provider.
- b) Access to customer data/information by a service provider shall be on a “need to know” basis.
- c) Company shall review and monitor the Security Practices and control processes of its Service Providers on a regular basis and require the service provides to disclose security breaches.
- d) Company shall ensure that Service Provider is able to isolate and clearly identify company’s customer information, documents, records and assets to protect the confidentiality of information.

(7) Selection of service provider

To enable sound and responsive risk management practices for effective oversight, due diligence and management of risks arising from outsourcing activities, all concerned departments who decide to outsource a financial activity/ service shall follow the below mentioned principles applicable to arrangements entered into by the Company with the Service Provider:

- (a) The outsourcing of any activity by the Company shall not diminish its obligations, and those of its Board and senior management, who have the ultimate responsibility for the outsourced activity. The Company shall retain ultimate control of the outsourced activity.
- (b) In considering or renewing an outsourcing arrangement, appropriate care, skill and diligence shall be performed to assess the capability of the Service Provider to comply with obligations in the outsourcing agreement.
- (c) Capacity to comply with all relevant laws, regulations, guidelines and conditions of approval, licensing or registration shall also be considered while outsourcing of any activities.
- (d) Past experience and competence to implement and support the proposed activity over the contracted period.
- (e) Service Provider’s resources and capabilities, including financial soundness, to perform the outsourcing work within the timelines fixed.
- (f) Compatibility of the practices and systems of the Service Provider with the Company’s requirements and objectives.
- (g) Market feedback of the prospective Service Provider’s business reputation and track record of their services rendered in the past.
- (h) Security and internal control, audit coverage, reporting and monitoring environment, business continuity management.
- (i) ensuring due diligence by Service Provider to its employees.

(8) Role of the Board and senior management

8.1. Role of the Board:

The Board of the Company or Committee of the Board to which powers have been delegated shall be responsible inter alia for the following:

- (a) Approval of framework to evaluate the risks and materiality of all existing and prospective outsourcing and the policies that apply to such arrangements.
- (b) Laying down appropriate authorities for outsourcing depending on risks and materiality.
- (c) Setting up suitable administrative framework of senior management for the purpose of these directions.
- (d) Undertaking regular reviews of outsourcing strategies and arrangements for their continued relevance and safety and soundness.
- (e) Deciding on business activities of a material nature to be outsourced and approving of such arrangements.

8.2. Responsibilities of the Senior Management

- (a) Evaluate the risks and materiality of all existing and prospective outsourcing.
- (b) Develop and implement sound and prudent outsourcing policies and procedures commensurate with the nature, scope and complexity of the outsourcing activity.
- (c) Review periodically the effectiveness of policies and procedures.
- (d) Communicate information pertaining to material outsourcing risks in the Board in a timely manner.
- (e) Ensure that contingency plans, based on realistic and probable disruptive scenarios, are in place and tested.
- (f) Ensure that there is independent review and audit for compliance with set policies.
- (g) Undertake periodic reviews of outsourcing arrangements to identify new material outsourcing risks as they arise.

(9) Outsourcing of activity to group companies

- (a) The Company may outsource its activity to any of its group companies to act as the Service Provider.
- (b) The Company shall ensure that an arm's length distance is maintained in terms of manpower, decision-making, record keeping, etc. for avoidance of potential conflict of interests between the Company and group companies and accordingly necessary disclosures in this regard shall be made as part of the outsourcing agreement.
- (c) 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.

(10) Outsourcing agreements

- (a) Outsourcing Agreement shall be sufficiently flexible to allow the Company to retain an appropriate level of control over the outsourcing.
- (b) The agreement shall also bring out the nature of legal relationship between the parties - i.e., whether agent, principal or otherwise.

- (c) Due care shall be taken to ensure that the agreement:
 - (i) clearly defines what activities are going to be outsourced, including appropriate service and performance levels.
 - (ii) provides for mutual rights, obligations and responsibilities of the Company and the Service Provider.
 - (iii) Provides for the mechanisms to resolve disputes arising from implementation of the outsourcing contract.
 - (iv) provides for a termination clause and minimum period to execute a termination provision, if deemed necessary, termination rights, transfer of information and exit strategies.

Role of Audit Committee of the Board

- (i) Monitor the system of internal audit of all outsourced activities
- (ii) Review entries pending reconciliation with outsourced vendors and reduces old outstanding entries.

(11) Business continuity and management of disaster recovery plan

- (a) Specific contingency plans shall be separately developed for each outsourcing arrangement, as is done in individual business lines.
- (b) The concerned Senior Management shall take appropriate steps to assess and address the potential consequence of a business disruption or other problems at the Service Provider level. 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.
- (c) 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.
- (d) The Company shall ensure that service providers are able to isolate the Company's information, documents and records, and other assets.

(12) Outsourcing Contract/Agreement

Terms and conditions governing the contract for outsourcing arrangement with service Provider are carefully defined in written agreement and vetted by the company's legal counsel/department on their legal effect and enforceability. Agreement shall address every risks and its mitigation strategies. Agreement shall be flexible to allow the company to retain an appropriate level of control over the outsourcing and right to intervene to meet legal and regulatory obligation.

Some of the key provision of agreement shall include:

- a) Details of the activities being outsourced including appropriate service and performance standards.
- b) Company's access to all books, records and information relevant to the outsourced activity available with the service provider.
- c) Regular and continuous monitoring and assessment by the company of the service provider for any corrective measures.
- d) Service provider shall take prior approval from the company for the use of sub contract.
- e) Shall implement necessary controls to ensure customer data confidentiality and it shall service providers liability in case of breach of security and leakage of confidential customer information.
- f) Contingency plans to ensure business continuity.
- g) Company's right to conduct audits on the service provider whether by its internal or external auditors or by agents appointed to act on its behalf.
- h) Right of RBI to conduct inspection/scrutiny its books, accounts, records. The service provider shall agrees to provide its books, records and accounts and information within 7 days upon the receipt of notice from RBI.
- i) Termination clause and minimum period for executing termination in case of any breach of any terms and conditions of the agreement.
- j) Provision that confidentiality of customers' information shall be maintained even after the contract expires or gets terminated.
- k) Service provider shall preserves documents and data in accordance with legal and regulatory obligation of the company.
- l) Compliance with the provisions of IT Act 2000 and other legal requirements and standards to protect the customers' data.
- m) Storage of data only in India as per regulatory requirements.
- n) Service provider to provide details of data captured, processed and stored.
- o) Type of data/information that service provider is permitted to share with the company's customer.
- p) The resolution process events of default, indemnities and recourse available to the respective parties.
- q) Contingency plan to ensure testing requirements.
- r) Right to seek information from the service provider about third party engaged by the service provider.
- s) Right to RBI or persons authorized by it to perform inspection of the service provider and any of its sub-contractors and access the IT infrastructure, application, data documents and other necessary information stored or processed by the service provider and is sub contractors.

- t) Clauses making the service provider contractually liable for the performance and risk management practices of its sub contractors.
- u) Obligation of the service provider to comply with direction issued by the RBI in relation to the services outsourced to the service provider, through specific contractual terms and conditions specified by the company.
- v) Termination right of the company including the ability to orderly transfer the proposed outsourcing agreement to another service provider if necessary or desirable.
- w) Service provider is prohibited from erasing, purging, revoking, altering or changing any data during the transition period unless advised by the regulator or company.

(13) Monitoring and control of outsourced activities

- (a) The Company shall have in place a management structure to monitor and control its outsourcing activities.
- (b) 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.
- (c) While outsourcing various IT services, more than one Regulated Entity (RE) may be availing services from the same third party service provider. In such scenarios, in lieu of conducting separate audits by individual Regulated Entities of the common service providers they may adopt pooled (shared) audit. The relevant RE to either pool their audit resources or engage an independent third party auditor to jointly audit a common service provider.
- (d) The audits shall assess the performance of the service provider, adequacy of the risk management practices followed by the service provider and compliance with laws and regulations.
- (e) Company shall periodically reviewed the financial and operational condition of the service provider to assess its ability to continue to meet its obligations.
- (f) Company shall ensure, the Service provider allows unrestricted and effective access to data related to outsourced services, relevant business premises of the service providers for the purpose of effective oversight by the company, its auditors, RBI and other relevant competent authorities.

(14) Outsourcing of Information Technology

Definitions:

- 1) IT means IT Services, IT enabled Services, IT activities
- 2) Material outsourcing of IT services are those which
 - a) If disrupted or compromised shall have the potential impact on the company's business.
 - b) May have material impact on the company's customer's in the event of any unauthorized access, loss or theft of customer data.

- 3) Service Provider means provider of IT services
- 4) The following list of vendors / entities are not to be treated as service Provider's
 - a) Vendors providing business servicing using IT
 - b) Payment system operators authorized by RBI under payment and settlement system Act 2007.
 - c) Partnership based Fintech firms such as those providing co-branded application products and services.
 - d) Fintech firms providing services for data retrieval and data validation and verification.
 - e) Telecom Service providers from whom based lines or similar kind of instruments are used.
 - f) Security or Audit consultants appointed for certification, audit or VAPT related to IT infra, IT services or Information security (IS) services in their role as independent third party auditor, consultant or lead implementer.

Evaluation:

- a) The need for outsourcing based on materiality / criticality of activity to be outsourced.
- b) Expectations and outcome
- c) Success factors and cost benefit analysis
- d) Model for outsourcing.

Company shall ensure cyber incidents are reported to it by the service provider without undue delay, so that an incident is reported by the company to the RBI within six hours for detection by the service provider.

Governance Framework

- a) Roles and responsibilities of the Board, committee of the Board and Senior Management should be defined.
- b) Criteria for selection of service provider
- c) Delegation of authority
- d) Disaster recovery and business continuity plan
- e) Termination process and exit strategies

Role of Senior Management

- a) Formulating Policies and procedures, evaluating the risks and materiality of existing and prospective IT outsourcing arrangements.
- b) Prior evaluation of prospective IT outstanding arrangements
- c) Identifying IT outsourcing risks that may arise, monitoring, mitigating, managing and reporting to the Board.

- d) Framing business continuity plan based on realistic and probable disruptive scenarios.
- e) Effective oversight over the service providers for data confidentiality and redressal of customer grievances.
- f) Independent review and audit periodically for compliance with the legislations, regulations, approved policy of the company.

Role of it department

- a) Assisting the Senior Management in identifying, measuring, monitoring, mitigating and managing IT outsourcing Risks.
- b) Ensuring, central database of all IT outsourcing arrangement is maintained and is accessible for review by the Board, Senior Management, Auditors and Supervisors.
- c) Monitoring and Supervising outsourced IT activity to ensure that the service provider meets the laid down performance standards
- d) Putting in place necessary documentation required for contractual agreement.

Risk management functions

- a) Identification, measurement, mitigation, management and reporting the risks associated with such IT outsourcing arrangements.
- b) Document risk assessments with necessary approvals from the Board of Directors, Senior Management and IT function.
- c) Assess the impact of concentration risk posed by multiple outsourcing arrangements to the same service provider.

Service Provider Evaluation (IT)

Service provider evaluation as applicable to outsourcing of financial services shall be applicable with the following additions:

- a) Technology, Infrastructural stability, data back-up arrangements and disaster recovery plan.
- b) Conflict of interest if any
- c) Capability to identify and segregate data of the company.
- d) Information/cyber security risk assessment
- e) Appropriate contractual arrangements are in place to ensure data protection and company's access to the data which is processed, managed or stored by the service provider.
- f) Enforceability of agreements and rights available thereunder including those relating to aspects such as data storage, data protection and confidentiality.

Exit Strategy

- a) It outsourcing policy shall contain clear exit strategy for ensuring business continuity during and post exit including termination of services with stipulation of minimum period to execute such plans.
- b) In documenting exit strategy, company shall identify alternative arrangements, which may include performing the services by a different service provider or by the company itself.

(11) Redressal of grievances related to outsourced services

The Grievance Redressal Officer of the Company shall ensure that genuine grievances of the Customers are forwarded to concerned department and redressed promptly without any delay. Generally, time limit of 30 days shall be given to the customers for resolving their complaints/ grievances.

(12) Review

The policy shall be reviewed at regular intervals or as and when considered necessary by the management/ Board of Directors of the Company.

For Muthoot Mercantile Limited

S/d
Mathew Mathaininan
Chairman & Whole-time Director
DIN: 00063078
