hpscb
(Scheduled Bank)

हिमाचल प्रदेश राज्य सहकारी बैंक सीमित
H.P. State Co-operative Bank Ltd.

POLICY FOR OUTSOURCING OF FINANCIAL SERVICES

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1. PREAMBLE

Outsourcing (or contracting out) is often defined as the delegation of non-core operation or jobs from internal production within a business to an external entity (such as a subcontractor) that specializes in that operation. Outsourcing is a business decision that is often made to lower costs or focus on competencies. 'Outsourcing" became a popular buzz word in business and management in the mid-1990s.

Outsourcing involves transferring a significant amount of management control and decision-making to the outside supplier. Buying products from another entity is not outsourcing or out-tasking, but merely a vendor relationship. Likewise, buying services from a provider is not necessarily outsourcing or out-tasking Outsourcing always involves a considerable degree of two way information exchange, coordination and trust.

DEFINITION

Outsourcing: 'Outsourcing' can be defined as Bank's use of a service provider (either an affiliated entity within group or an entity that is external to the group) to perform activities on a continuous basis that would normally be undertaken by the Bank itself, through a legal agreement.

2. OUTSOURCING IN BANKING INDUSTRY:

The Bank resorts to outsourcing for its activities either on continuous basis or for specific jobs / assignment. While doing so, besides the cost consideration, compliance of legal obligations, supervisory requirements and assessment of risk associated with outsourcing, assume prime importance.

The guidelines under this policy are concerned with managing risks in outsourcing of financial services and are not applicable to technology-related issues as also activities not related to financial services like usage of courier, catering of staff, housekeeping and janitorial services, security of the premises, movement and archiving of records, etc. Bank not require any prior approval from RBI / NABARD. However, outsource arrangements would be subject to on-site / off-site monitoring and inspection/scrutiny by RBI/NABARD.

3. ADVANTAGES OF OUTSOURCING:

Outsourcing is successful as it increases product quality, towers costs substantially or both. Through –outsourcing companies today have the ability to develop competitive strategies that will leverage their financial positions in the ever competitive global marketplace –

a) AVAILMENT OF TECHNOLOGICAL KNOW-HOW

Outsourcing leads to the ability to utilize the technological know-how of other organizations. This allows businesses to find the specific requirements they need to implement their target objectives.

b) DEPLOYMENT OF CORE COMPETENCIES

Outsourcing allows deploying distinctive core competencies of other organizations which lead to long term benefits.

c) **PROJECTION OF FUTURE COSTS**

Organizations that choose to outsource have the ability to determine exact future costs.

d) **REDUCTION IN COSTS**

Outsourcing leads to adoption of economical approach for developing / improvising products and services.

e) **SUPERVISORY REQUIREMENTS**

In case any outsourcing activity is arising in consequence of a supervisory direction, such supervisory direction ipso facto will form part of Bank's Outsourcing Policy. That is, the instructions of supervisory requirement will form part of Outsourcing Policy ipso facto.

4. MISCONCEPTION OF OUTSOURCING:

It is widely held that outsourcing at times affects quality of customer service as the work force deployed in outsourcing is not loyal to the parent institution. The technical support of outsourced tasks is also impaired many a times. The staff of the parent institution are in a better position to understand the customer needs and their priorities than the work force deployed by outsourced agents. To overcome these criticisms leveled against outsourcing, it is necessary to exercise control at strategic points by devising an appropriate supervisory mechanism over the outsourced activities.

5. ACTIVITIES THAT CANNOT BE OUTSOURCED

i) Bank shall not outsource any activities which are prohibited under applicable legal, regulatory or statutory requirements. Bank through the Outsourcing committee would ensure that activities like, Core management functions viz., Internal audit and the compliance function, execution of orders and monitoring of trading activities of clients, decision – making functions like determination of compliance with KYC norms for opening deposit accounts, according sanction for loans (including retail loans) and management of investment portfolios are not outsourced. However, where required, experts, including former employees, could be hired on a contractual basis subject to the Audit Committee of Board.

ii) Core Business Functions are functions which are vital functions without which an organization cannot survive and/ or effectively achieve its objectives. These functions are specific to the organization and help it differentiate from competition and involve decision making at the highest levels. These functions may include functions like Business Strategy, Pricing –Client services, Client Relationship Management, Product Design and Management, Management of Intellectual Property.

iii) Outsourcing arrangements like courier, security services, and janitorial services would be considered as non-financial outsourcing and would be kept out of the purview of this policy, as the Bank would not have undertaken this activity under the normal course.

6. COMMON AREAS OF OUTSOURCING

FINANCIAL OUTSOURCING – Outsourcing Arrangements, which would ideally have been carried out by Bank in normal course, being entrusted to other agency due to a specific reason. All financial Services outsourcing would be under the purview of the policy irrespective of its material impact. Typical activities under financial outsourcing operations includes:-

a) BANKING OPERATIONS

i) Sourcing Leads generation.
ii) Application processing (Loan Origination, Credit Card)
iii) Supervision of loans.
iv) Cash management and Collections.
v) Customer service helpdesk/ call center services.
vi) Activities such as Debit card printing and dispatch, verifications.
vii) Back office related activities etc.
viii) Marketing and research.
ix) The activities which are not prohibited under applicable legal, regulatory or statutory requirements and not core management functions/.

7. MATERIAL OUTSOURCING

During inspections/ scrutiny's, RBI / NABARD will review the implementation of guidelines to assess the quality of related risk management systems particularly in respect of material outsourcing. Material outsourcing arrangements are those, which if disrupted, have the potential to significantly impact the business operations, reputation or profitability of bank.

Materiality of outsourcing would be based on:-

i. The level of importance to the bank of the activity being outsourced as well as the significance of the risk posed by the same;
ii. The potential impact of the outsourcing by the bank on various parameters such as earnings, solvency, liquidity, funding capital and risk profile;
iii. The likely impact on the bank's reputation and brand value, and ability to achieve its business objectives, strategies and plans, should the service provider fail to perform the service;
iv. The cost of the outsourcing as a proportion of total operating costs of the bank;
v. The aggregate exposure to that particular service provider, in cases where the bank outsources various functions to the same service provider;
vi. The significance of activities outsourced in context of customer service and protection.

8. PROCESS FLOW OF OUTSOURCING ACTIVITY AT HEAD OFFICE

1. First of all, the concerned section seeking to outsource activities shall put up all specific details and justifications regarding the outsourcing activities before the authorities.
2. After the permission of the authorities, the concerned section shall place the matter before the committee for discussion, suggestions, evaluations etc.
3. The committee may include some expert/support consultant Bank in the committee, if required.
4. The committee shall examine the matter as per the guidelines of the policy.
5. In the event of any ambiguity or queries, the authority to interpret the clauses shall vest with the Managing Director of the bank.
6. After the recommendation/resolution of the committee, the matter will be placed before the BoDs of the Bank for approval.
7. The concerned section shall maintain a proper record of the outsourcing activities.
8. After following all the procedure mentioned above, the matter further will be processed as per the procurement policy of the Bank.

9. FRAMEWORK FOR APPROVAL

Bank intending to outsource any of its financial activities shall put in place a comprehensive outsourcing policy, approved by its Board, which incorporates, inter alia, criteria for selection of such activities as well as service providers, parameters for defining material outsourcing based on the broad criteria indicated in point no - 7,delegation of authority depending on risks and materiality and systems to monitor and review the operations of these activities. Proposals for outsourcing an activity, half year review of the outsourced activity and annual review of the service providers would be carried out by the Committee set up for this purpose.

A committee would assess, quantify, and review the risk mitigations measures being put in place for outsourced financial services irrespective of the materiality. The committee will ensure that all relevant matters are discussed and that effective decisions are made and carried out.

Further, department/section/cell outsourcing its activities will evaluate proposals and furnish inputs accordingly before the committee.

The roles and responsibilities and the composition of the Committee are described below:

	Members: Outsourcing Committee	
1.	MD Bank	Chairperson
2.	GM (Admin)	Member
3.	GM (Banking)	Member
4.	DGM (IT)	Member
5.	DGM concerned Section from where outsourcing activities related	Member
6.	AGM/In charge (concerned Section from where outsourcing activities related)	Member (Convener)
7.	Incharge Law Section	Member

8.	Incharge any other section if deemed needed from committee	Member
9.	Support Consultant (if needed)	Member

In case of absence of member at Sr No. 8, the next officer/official in hierarchy can attend the meeting for the particular day.

10. ROLE AND RESPONSIBILITY OF BOARD AND OUTSOURCING COMMITTEE

10.1 THE BOARD SHALL BE RESPONSIBLE FOR: -

i. Approving a framework to evaluate the risks and materiality of all existing and prospective outsourcing and the policies that apply to such arrangements;
ii. Laying down appropriate approval authorities for outsourcing depending on risks and materiality;
iii. Undertaking regular review of the framework for its efficacy and update the same to ensure that the outsourcing strategies and arrangements have continued relevance, effectiveness, safety and soundness;
iv. Deciding on business activities of a material nature to be outsourced and approving such arrangements;
v. Assessment of management competencies to develop sound and responsive outsourcing risk management policies and procedures commensurate with the nature, scope, and complexity of outsourcing arrangements; and
vi. Setting up suitable administrative framework of management for the purpose of these guidelines.

10.2 THE COMMITTEE SHALL BE RESPONSIBLE FOR: -

i. Evaluating the risks and materiality of all existing and prospective outsourcing, based on the framework approved by the Board;
ii. Developing and implementing sound and prudent procedures commensurate with the nature, scope and complexity of the outsourcing;
iii. Reviewing periodically the effectiveness of policies and procedures;
iv. Communicating information pertaining to material outsourcing risks to the Board in a timely manner;
v. Ensuring that contingency plans, based on realistic and probable disruptive scenarios, are in place and tested;
vi. Ensuring that there is independent review and audit for compliance with set policies; and
vii. Undertaking periodic review of outsourcing arrangements to identify new material outsourcing risks.

11. RISK EVALUATION AND MEASUREMENT

The various risks involved in Outsourcing are 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. Over and above certain vulnerabilities are linked with the applications of these activities at the operational level.

The section concerned while engaging vendors / agencies for activities identified to be outsourced, need to identify also various vulnerabilities in advance and to put in place the following to overcome such risks

i) Proper execution of policy guidelines on availing outsourcing services;
ii) Adequate mechanisms to ensure effective oversight on the operations;
iii) Alternate Plan to switch over in case of abrupt discontinuation of services;
iv) Execution of guidelines to claim compensation / penalty for the same, which should be properly defined in the Service Level Agreement (SLA); the bank should, wherever required, take a Performance guarantee and insist on inclusion of penalty clauses in the SLA;

The key risks in outsourcing that need to be evaluated by the committee are: -

(a) **Strategic Risk** – The service provider may conduct business on its own behalf, which is inconsistent with the overall strategic goals of the bank.
(b) **Reputation Risk** – Poor service from the service provider, its customer interaction not being consistent with the overall standards of the bank or failure in preservation and protection of confidential customer information.
(c) **Compliance Risk-** Privacy, consumer and prudential laws not adequately complied with.
(d) **Operational Risk** – Arising due to failure of internal processes, people failure, systems failure or from external events, fraud, error and inadequate financial capacity to fulfill obligations and/or provide remedies.
(e) **Legal Risk** – 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.
(f) **Exit Strategy Risk –** This could arise from over-reliance on one firm, the loss of relevant skills in the bank 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) **Country Risk** – Due to the political, social or legal climate creating added risk.
(i) **Contractual risk –** Arising from whether or not the bank has the ability to enforce the contract.
(j) **Concentration and Systemic Risk –** Due to lack of control of individual banks over a service provider, more so when overall banking industry has considerable exposure to one service provider.

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 either the service provider or the outsourcing bank can lead to financial losses / reputational risk for the bank and could also lead to systematic risks within the entire banking system. It would therefore be imperative while outsourcing the activities to ensure effective management of these risks. The section availing outsourcing activity shall look into the above broadly classified risks and also look into any other incidental risks attributable to it along with risk mitigation views and submit the same to committee for operational Risk Management (CORM) for their necessary evaluation and clearance before final award of contract.

Further, Risk evaluation should be performed prior to entering into an outsourcing agreement and reviewed periodically in the light of known and expected changes as part of the strategic planning or review processes.

11.1 FRAMEWORK FOR RISK EVALUATION

Risk evaluation framework should include the following steps:

i. Identification of role of outsourcing in the overall business strategy and objectives and inter-linkages with corporate strategic goals.

ii. Analysis of impact of such arrangement on the overall risk profile of the bank and whether adequate internal expertise and resources exist to mitigate the risks identified.

iii. Analysis of risk-return on the potential benefits of outsourcing vis-à-vis the vulnerabilities that may arise. Banks should evaluate vendor managed processes or specific vendor relationships as they relate to information systems and technology. All outsourced information systems and operations may be subject to risk management and security and privacy policies that meet the Bank's own standards.

12. OUTSOURCING AGREEMENT

The terms and conditions governing the contract between a bank and service provider should be carefully defined in written agreements and vetted by bank's legal counsel on their legal effect and enforceability. Every such agreement should address the risks and risk mitigation strategies. The agreement should be sufficiently flexible to allow the bank 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 should 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 would be:

I. The contract should clearly define the activities being outsourced including Service Level Agreements (SLAs) to agree and establish accountability for performance expectations. SLAs must clearly formalize the performance criteria to measure the quality and quantity of service levels.

II. The contract must enable the Bank with the ability to access all books, records and information relevant to the outsourced activity available with the service provider.

III. The contract should provide for continuous monitoring and assessment of the service provider, so that any necessary corrective measure can be initiated immediately.

IV. Controls to ensure customer data confidentiality and service providers' liability in case of breach of security and leakage of confidential customer related information shall be incorporated.

V. A termination clause and notice period should be included.

VI. Contingency plans to ensure business continuity should be included.

VII. The contract should provide for the prior approval/consent of bank for use of subcontractors by the service provider for all or part of an outsourced activity. Before according the consent, bank should review the subcontracting arrangement and ensure that these arrangements are compliant with the extant guidelines on outsourcing.

VIII. The contract should provide the bank with the right 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 in conjunction with the services performed for the bank.

IX. Outsourcing agreement should include a clause to allow RBI/NABARD/Bank or persons authorized by it to access the documents, records of transactions, logs and other necessary information given to, stored or processed by the service provider, within a reasonable time. This includes information maintained in paper and electronic formats.

X. Outsourcing agreement should also include a clause to recognize the right of the RBI/NABARD/Bank to cause an inspection of a service provider and its books and accounts by one or more of its officers or employees or other authorized persons.

XI. The outsourcing agreement should also provide that confidentiality of customers' information should be maintained even after the contract expires or gets terminated. Further, bank shall 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.

12.1 CONFIDENTIALITY AND SECURITY

i. Public confidence and customer trust in bank is a prerequisite for the stability and reputation of the bank. Hence, the bank shall seek to ensure the preservation and protection of the security and confidentiality of customer information in the custody of the service provider.

ii. 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.

iii. The bank shall ensure that the service provider is able to isolate and clearly identify the bank's customer information, documents, records and assets to protect the confidentiality of the information. In the instances, where service provider acts as an outsourcing agent for multiple banks, care should be taken to build adequate safeguards so that there is no comingling of information/documents, records and assets.

iv. The bank 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.

v. The bank shall immediately notify RBI / NABARD in the event of any breach of security and leakage of confidential customer related information. In these eventualities, the bank shall be liable to its customers for any damage.

12.2 TERMINATION CLAUSE

a) Contracts should include a termination clause and minimum periods to execute a termination provision, as deemed necessary.
b) Agreements should provide for maintaining confidentiality of customer's information even after the contract expires or is terminated by either party.
c) Contract should include conditions for default termination/ early exit option for contracts. This may include circumstances when the service provider undergoes a change in ownership becomes insolvent or goes under liquidation, received judicial indictment (whether within India or any other location) or when there has been a breach of confidentiality, security, or demonstrable deterioration in quality of services rendered.
d) In all cases of termination (early or otherwise) an appropriate handover process for data and process needs to be agreed with the service provider.
e) In the event of termination of the agreement for any reason, it should be adequately publicized to ensure that the customers do not continue to entertain the service provider. List of terminated cases and IBA caution list would be uploaded on the Bank's website and intranet. Bank should ensure that service of outsourced agencies which are included in 'Caution List' of Indian Banks Association should not be availed.

12.3 SUB-CONTRACTING

Agreements may include covenants limiting further sub-contracting. Agreements should provide for due prior approval/consent by the bank of the use of subcontractors by the service provider for all or part of an outsourced activity. The bank should retain the ability of similar control and oversight over the sub service provider as the service provider.

12.4 DISPUTE RESOLUTION

Agreements should specify the resolution process, the event of default, indemnities involved and the remedies and recourse of the respective parties to the agreement.

12.5 Applicable laws

Agreements should include choice of law provisions, based on the regulations as applicable to the bank. An agreement should be tailored to provide for specific risks relating to cross border businesses and operations, data privacy and ownership aspects among others.

13. RBI Guidelines on Outsourcing:

The Reserve Bank of India has issued guidelines on outsourcing to provide direction/guidance to banks, to adopt sound and responsive risk management practices for effective oversight, due diligence and management of risk arising from outsourcing activities. In regard to managing risks applicable in outsourcing of financial services.

RBI's detailed instructions contained in its circulars issued vide the following would be applicable:

RBI/2021-22/64 DOR.ORG.REC.27/21.04.158/2021-22 dated 28th June 2021

The guidelines are applicable to outsourcing arrangements entered into by a bank with a service provider located in India or elsewhere. The service provider may either be a member of the group/conglomerate to which the bank belongs, or an unrelated party.

In terms of these guidelines –

i) Banks would not require prior approval from RBI for outsourcing financial services, whether the service provider is located in India or outside;

ii) In regard to outsourced services relating to credit cards, RBI's detailed instructions contained in its circular on credit card activities vide RBI/2015- 16131 D8R.No.FSD.8C.18124.01.00912015-16 dated 1st July 2015 would be applicable.

14. Business Continuity and Management of Disaster Recovery Plan

i. Bank shall require its service providers to develop and establish a robust framework for documenting, maintaining and testing business continuity and recovery procedures. Banks need to ensure that the service provider periodically tests the Business Continuity and Recovery Plan. Banks may also conduct joint testing and recovery exercises with its service provider at mutually agreed frequency but at least annually.

ii. In order to mitigate the risk of unexpected termination of the outsourcing agreement or liquidation of the service provider, bank 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 bank and its services to the customers.

iii. In establishing a viable contingency plan, bank should 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.

iv. Bank to ensure that in adverse conditions and/ or termination of the contract, all documents, records of transactions and information given to the service provider and assets of the bank can be removed from the possession of the service provider in order to enable the bank to continue its business operations; or deleted, destroyed or rendered unusable.

15. Monitoring and Control of Outsourced Activities

i. The bank shall have in place a management structure to monitor and control their outsourcing activities. It shall also be ensured that outsourcing agreements with the service provider contain provisions to address their monitoring and control of outsourced activities.

ii. A central record of all material outsourcing that is readily accessible for review by the Board and authorities of the bank shall be maintained. The records should be updated promptly and half yearly reviews should be placed before the Board.

iii. Regular audits at least annually by either the internal auditors or external auditors of the bank should assess the adequacy of the risk management practices adopted in overseeing and managing the outsourcing arrangement, the bank's compliance with its risk management framework and these guidelines.

iv. Bank 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 should highlight any deterioration or breach in performance standards, confidentiality and security, and in business continuity preparedness. Bank shall also submit an Annual Compliance Certificate giving the particulars of outsourcing contracts, the prescribed periodicity of audit by internal / external auditor, major findings of the audit and action taken through Board, to the Regional Offices of RBI / NABARD.

v. The event of termination of any outsourcing agreement for any reason where the service provider deals with customers, shall be publicized by displaying at a prominent place in the branches and posting it on the bank's website so as to ensure that the customers do not continue to deal with the service provider.

vi. Certain cases, like outsourcing of cash management, might involve reconciliation of transaction between the bank, the service provider and its subcontractors. In such cases, banks should ensure reconciliation of transactions between the bank and the service provider (and /or its subcontractor) are carried out as advised in RBI guidelines on 'Outsourcing of Cash Management – Reconciliation of Transactions' dated May 14, 2019 as amended from time to time.

vii. A robust system of internal audit of all outsourced activities shall be put in place and monitored at the Board level.

16. Responsibilities of DSA/DMA/ recovery agents

Services under the categories like engagement of Business Correspondents (BC), Deposit Mobilizing Agent and Recovery Agent shall also be reckoned as outsourced activity for the Bank and will be covered under the purview of these guidelines. Further, Sections/Cell/Department hiring BC/ DMA/ Recovery agents would ensure the following:

a) Business Correspondents (BC)/Recovery Agents/Deposit Mobilizing Agents are trained to handle customers with care and sensitivity, particularly while soliciting customers by adhering to hours of calling, maintain privacy of customer information and convey the terms and conditions of the products.
b) Business Correspondents (BC)/Recovery agents/DMAs should refrain from action that could damage the integrity and reputation of the Bank and would observe strict customer confidentiality.

c) Business Correspondents (BC)/Recovery Agents/DMAs do not resort to intimidation or harassment of any kind either verbal or physical against any person in their debt collection efforts
d) Concerned Section/Cell outsourcing the activity, should ensure that any deviations from the above-mentioned terms are updated to Outsourcing Committee within 7 days along with the details of the incident and action taken against the service providers.

17. Redressal of Grievances related to Outsourced services

Outsourcing Committee should ensure to constitute a Grievance redressal mechanism within the bank and give wide publicity about it through electronic and print media.

Customers of the Bank can lodge a complaint against the service provider/ employee of the service provider through the customer grievance channel. Relevant department/Section should maintain data of all such complaints and submit the same to the Outsourcing committee. The Outsourcing committee should factor in these complaints during their review.

Below are few points that must be included in Grievance redressal mechanism

i. The name and contact number of designated grievance redressal officer of the Bank should be made known and widely publicized. The designated officer should ensure that genuine grievances of customers are redressed promptly without involving delay. It should be clearly indicated that Bank's grievance redressal machinery will also deal with the issue relating to services provided by the outsourced agency.

ii. A time limit of 30 days may be given to the customers for preferring their complaints/ grievances. The grievance redressal procedure of the Bank and the time frame fixed for responding to the complaints should be display on the Bank's website.

iii. If a complainant does not get satisfactory response from the Bank within one month from the date of his/her lodging the complaint with the Bank, he/she will have the option to approach the Office of the concerned Banking Ombudsman for redressal of his/her grievance/s.

18. PERIODIC RISK ASSESSMENT, AUDIT AND REVIEWS

Outsourcing Committee should ensure to conduct pre and post outsourcing implementation reviews and also review its outsourcing arrangements periodically to ensure that its outsourcing risk management policies, procedures and guidelines are effectively complied with.

Outsourcing Committee should also ensure to periodically commission independent audit and expert assessments on the security and control environment of the service provider, such assessments and reports on the service provider may be performed and prepared by the Bank's internal or external auditors or by agents appointed by the Bank.

Such reviews should take adequate cognizance of historical violations or issue remediation during previous audits and assessments. Copies of previous audits and assessments should be shared during NABARD/RBI inspections.

19. REVIEW OF OUTSOURCING ARRANGEMENTS

Outsourcing Committee should review the financial and operational condition of the service provider to assess its ability to continue to meet outsourcing obligations. Such due diligence reviews, which can be based on all available information about the service provider including reports by the service provider's external auditors. Any deterioration or breach in performance standards, confidentiality and security and its business continuity preparedness should be highlighted in the review.

Outsourcing Committee should carry out half yearly review of all outsourcing arrangements as on 30th June of every year and, an annual review of all service providers along with the activity review as on 31st December of every year.

The review report along with the observations & action taken should be submitted to the subsequent Risk Management Committee of the Board.

Half Yearly Review (Off-site) - A half yearly review of the operational risk associated with the services provided by the Service Provider should be undertaken to assess its ability to continue to meet its outsourcing obligation by the competent team of the Bank. This review would be based on checklist and self-certification by the Service Provider. A consolidated report on the findings of the review undertaken by the concerned department of the Bank will be put up to Outsourcing Committee of the Bank for perusal and action required, if any.

Annual Review (On-site) – The department responsible for Outsourcing the activity of the Bank should conduct the on-site review of the activities provided by the Service Provider. The review would be based on sample testing at the site of the Service provider. Report on the findings of the review undertaken by the officer of the Bank should be put up to the Outsourcing Committee of the Bank for perusal and action required, if any

20. OTHER REGULATORY REQUIREMENTS

Following regulatory requirements are to be fulfilled by the relevant departments before outsourcing an activity to the service provider.

a) Service Provider should seek prior approval of the Bank (relevant department, outsourcing the activity) for use of sub-contractors for all or any part of the outsourced activity. Relevant department should ensure that the sub-contracting arrangements are compliant with the extant regulatory guidelines on outsourcing.
b) In cases like outsourcing of cash management services, involving reconciliation of transactions, service provider/sub-contractor should ensure that reconciliation of transactions between the Bank and service provider (and/ or its subcontractor) are carried out in a timely manner.
c) An ageing analysis of such entries pending reconciliation with outsourced service providers should be placed before the Audit Committee of the Board (ACB).
d) Internal audit department should conduct an audit of outsourced activities and submit the report to ACB.
e) Internal audit department would submit an 'Annual Compliance Certificate' giving particulars of outsourcing contracts, periodicity of audit by internal/ external auditor, major findings of the audit and action taken through Board, to the Chief General Manager in-Charge, Department of Banking Supervision, Central Office, Reserve Bank of India, Mumbai.

All products literature/ brochures etc. should have a clause stating that Bank may use the services of agents in sales/ marketing etc., of the products. The role of agents, if any should also be indicated in broad terms.

21. REPORTING OF TRANSACTIONS TO FIU OR OTHER COMPETENT AUTHORITIES

Bank shall be responsible for making Currency Transactions Reports and Suspicious Transactions Reports to FIU or any other competent authority in respect of the banks' customer related activities carried out by the service providers.

22. CENTRALIZED LIST OF OUTSOURCED AGENTS

If a service provider's contract is terminated prematurely prior to the completion of contracted period of service, Indian Banks' Association (IBA) would have to be informed with reasons for termination. IBA would be maintaining a caution list of such service providers for the entire banking industry for sharing among banks.

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