

OUTSOURCING POLICY



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1. Introduction

The Reserve Bank of India (RBI) vide its Master Direction – Reserve Bank of India (Non Banking Financial Company – Scale Based Regulation) Directions, 2023 has issued instructions on managing risks and code of conduct in outsourcing of financial services by NBFCs with a view to adopt sound and responsive risk management practices for effective oversight, due diligence and management of risk arising from outsourcing activities, in particular, financial services and protect the interest of the Customers of the Company.

The RBI Directions 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 Keeping the above intent of the RBI Directions, this Outsourcing Policy (the Policy)

2. Definitions

- i. **Outsourcing:** is defined as the NBFC's use of a third party (either an affiliated entity within a corporate group or an entity that is external to the corporate group) to perform activities on a continuing basis that would normally be undertaken by the NBFC itself, now or in the future.
- ii. **Continuing basis:** includes agreements for a limited period.
- iii. **Customer:** shall mean Customer of various businesses of the Company in relation to which Outsourcing of Financial Services or Ancillary Services is done.
- iv. **Third Party Agent ("TPA") or Service Provider:** in relation to this Policy shall mean an individual or organization that are appointed to in relation to Material Outsourcing.
- v. **'Financial Service'** in relation to the Company shall mean applications processing (loan origination), document processing, marketing and research, supervision of loans, data processing, back office related activities or other financial service etc.
- vi. **"Recovery Agents"** shall mean TPA appointed by the Company and authorised for collection of dues or repossession of secured assets (funded/hypothecated/mortgage with the Company) on behalf of the Company.

The terms used herein this Policy and not defined shall have meaning as specified in the RBI Directions.

3. Activities that can be outsourced

The Services that may be outsourced by the Company may generally include application processing (loan origination), document processing, marketing and research, supervision of loans, data processing and back office related activities etc.

An indicative list of activities that may be (which is not exhaustive, can be amended/added as per requirement of the company)

- Sourcing/Lead Generation/Recommendation of prospective Borrowers;
- Collection of Loans from Borrowers/Defaulting Borrowers;
- Field Investigation, Risk Containment Unit;
- 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;
- Administration of Payroll and Taxation;
- Technology infrastructure management, maintenance & support;
- Application development, maintenance and testing;
- Storage, movement and archiving of records;
- Use of Courier Services, Travel Agents;
- Maintenance Services;
- Legal
- Audit Services (On Contract)

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 Strategic and Compliance functions and decision-making functions such as determining compliance with KYC norms for sanction for loans, Internal Audit. Further, Internal Audit function itself is a management process, the internal auditors can be on contract. However, the Company outsource this function within the group subject to compliance with instructions as provided in point outsourcing within a group.

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 arise 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) Country Risk – Due to political, social or legal climate creating added risk.
- i) Contractual Risk – arising from whether or not the Company has the ability to enforce the contract.
- j) 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.

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 well-defined structure of roles & responsibilities discussed hereinafter shall be in place to decide on the activities to be outsourced, selection of service provider, terms & conditions of outsourcing and monitoring mechanism etc.

8. Discretion of Outsources activities

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 well-defined structure of roles & responsibilities discussed hereinafter shall be in place to decide on the activities to be outsourced, selection of service provider, terms & conditions of outsourcing and monitoring mechanism etc.

- i. evaluating the risks and materiality of all existing and prospective outsourcing, based on the framework approved by the Board of Director ('Board');
- ii. developing and implementing sound and prudent outsourcing policies and procedures commensurate with the nature, scope and complexity of the outsourcing activity;
- 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 as they arise.
- viii. No part of the outsourced activity shall be sub-contracted unless and otherwise stipulated in the contract explicitly. Any proposal by service provider to subcontract, at a later stage, shall be after accessing various risks to which the activity is exposed to and with prior written approval of the Board.
- ix. A proper cost benefit analysis of the outsourced activity should be done before awarding the outsourcing contract; the decision to outsource or not should be taken with due regard to the cost benefit analysis so done.

9. Role of the Board and Senior Management

Role of the Board

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

- a) approving a 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 approval authorities for outsourcing depending on risks and materiality;
- c) setting up suitable administrative framework of senior management for the purpose of these instructions;
- d) undertaking regular review of outsourcing strategies and arrangements for their continued relevance, and safety and soundness and
- e) deciding on business activities of a material nature to be outsourced, and approving such arrangements.

Responsibilities of the Senior Management

- a) Evaluate the risks and materiality of all existing and prospective outsourcing, based on the framework approved by the Board;
- 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; and
- g) Undertake periodic reviews of outsourcing arrangements to identify new material outsourcing risks as they arise.

Oversight and Ultimate Responsibility

It is crucial to understand that outsourcing does not diminish the NBFC's obligations or its ultimate responsibility to its customers and regulators. While certain functions may be delegated to third-party service providers, the Board of Directors and Senior Management retain full accountability for all activities, including those outsourced. This includes ensuring that outsourced activities are conducted in a manner consistent with all applicable laws, regulations, and the NBFC's internal policies. The NBFC must implement robust oversight mechanisms, including thorough due diligence of service providers, clear contractual agreements, ongoing monitoring, and regular performance reviews, to effectively manage the risks associated with outsourcing.

11. Outsourcing within Group/ Conglomerate

In a group structure, 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, 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:

- are appropriately documented in written agreements with details like scope of services, charges for the services and maintaining confidentiality of the customer's data;
 - 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;
 - do not compromise the ability to identify and manage risk of the Company on a stand-alone basis;
 - 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
 - shall 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.
- i. 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.
 - ii. The Company shall not publish any advertisement or enter into any agreement stating or suggesting or giving tacit impression that they are in any way responsible for the obligations of its group entities;
 - iii. The marketing brochure used by the group entity and verbal communication by its staff agent in the Company's premises shall mention nature of arrangement of the entity with the Company so that the customers are clear on the seller of the product.

12. Off- Shore outsourcing of financial services

- a) The engagement of service providers in a foreign country exposes the Company to country risk - economic, social and political conditions and events in a foreign country that may adversely affect the Company. Such conditions and events could prevent the service provider from carrying out the terms of its agreement with the Company. To manage the country risk involved in such outsourcing activities, the Company 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.
- b) The activities outsourced outside India shall be conducted in a manner so as not hinder efforts to supervise or reconstruct the India activities of the Company in a timely manner.
- c) As regards the off-shore outsourcing of financial services relating to Indian Operations, the Company shall additionally ensure that
 - 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 Company's internal and external auditors.
 - The availability of records to management and the RBI will withstand the liquidation of either the offshore custodian or the Company in India.
 - The regulatory authority of the offshore location does not have access to the data relating to Indian operations of the Company 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 Company).
 - The jurisdiction of the courts in the off shore location where data is maintained does not

extend to the operations of the Company in India on the strength of the fact that the data is being processed there even though the actual transactions are undertaken in India and All original records continue to be maintained in India.

13. Outsourcing Agreements

- a) All outsourcing arrangements shall be executed only by way of a clearly defined and legally binding written agreement with each of the Service Provider and vetted by the Company's Legal Department on their legal effect and enforceability;
- b) The agreement shall 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;
- c) The agreement shall also bring out the nature of legal relationship between the parties - i.e., whether agent, principal or otherwise
- d) Due care shall be taken to ensure that the Outsourcing Agreement:
- e) clearly defines what activities are going to be outsourced, including appropriate service and performance levels;
- f) to ensure that it has the ability to access all books, records and information relevant to the outsourced activity available with the service provider;
- g) provides for mutual rights, obligations and responsibilities of the Company and the Service Provider including indemnity by the parties;
- h) provides for the liability of the Service Provider to the Company for unsatisfactory performance/other breach of the contract;
- i) provides for the continuous monitoring and assessment by the Company of the Service Provider so that any necessary corrective measures can be taken up immediately, i.e., the contract shall enable 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;
- j) includes, where necessary, conditions of sub-contracting by the Service Provider, i.e. the contract shall provide for the prior approval/ consent by the Company of the use subcontractors by the service provider for all or part of an outsourced activity
- k) has unambiguous confidentiality clauses to ensure protection of proprietary and customer data during the tenure of the contract and also after the expiry of the contract and service providers' liability in case of breach of security and leakage of confidential customer related information shall be incorporated;
- l) specifies the responsibilities of the Service Provider with respect to the IT security and contingency plans, insurance cover, business continuity and disaster recovery plans, force majeure clause, etc.;
- m) provides for preservation of the documents and data by Service Provider as required by law and take suitable steps to ensure that its interests are protected in this regard even post termination of the services;
- n) Provides for the mechanisms to resolve disputes arising from implementation of the outsourcing contract;
- o) provides for a termination clause and minimum period to execute a termination provision, if deemed necessary, termination rights, transfer of information and exit strategies;
- p) Addresses additional issues arising from country risks and potential obstacles in exercising oversight and management of the arrangements when Company outsources its activities to foreign Service Provider. For example, the agreement shall include choice-of-law provisions and agreement covenants and jurisdictional covenants that provide for adjudication of disputes between the parties under the laws of a specific jurisdiction; l) neither prevents nor impedes the Company from meeting its respective regulatory obligations, nor the regulator from exercising its regulatory powers; and
- q) Provides for the Company and /or the regulator or the persons authorized by it to have the ability to inspect, right to conduct audit through internal or external auditors, obtain copies of any audit or review reports, access all books, records and information relevant to the outsourced activity with the Service Provider.

- r) Provides for the RBI or officials authorised by it to access the Company's documents, record of transactions, and other necessary information given to, stored or processed by the Service Provider within a reasonable time and also right to conduct inspection on Service Provider and its books and account.

14. Evaluation of Capacity of Service Provider

Before any outsourcing arrangement, the NBFC must conduct comprehensive due diligence to assess the service provider's capability to fulfill its obligations. This evaluation considers various factors:

- **Experience & Competence:** Proven track record and ability to consistently support the proposed activity.
- **Financial Soundness:** Stability and capacity to meet commitments, even under adverse conditions.
- **Business Reputation:** Ethical culture, compliance history, and absence of significant litigation.
- **Operational Capabilities:** Robust security, internal controls, audit coverage, reporting, and Business Continuity Management (BCM) plans. System compatibility is crucial.
- **Employee Due Diligence:** Verification that the service provider conducts thorough background checks on its own staff.
- **Concentration Risk:** Assessment of potential over-reliance on a single service provider to ensure diversification.

15. Client Confidentiality and Security

- a) The Company is expected to take appropriate steps to protect its proprietary and confidential customer information and ensure that it is not misused or misappropriated.
- b) The Company shall prevail upon the Service Provider to ensure that the employees of the Service Provider have limited access to the data handled and only on a "need to know" basis and the Service Provider shall have adequate checks and balances to ensure the same.
- c) The Company shall 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, care shall be taken to build strong safeguards so that there is no comingling of information / documents, records and assets.
- d) In cases where the Service Provider is providing similar services to multiple entities, the Company shall ensure that adequate care is taken by the Service Provider to build safeguards for data security and confidentiality.
- e) 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.
- f) 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.

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

- a) The Company shall ensure that 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.
- b) Recovery Agent shall adhere to extant instructions on Fair Practices Code of the company 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.
- c) 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.

17. Loan sourced by the Company over Digital Lending Platforms

In view of the of Banks and NBFCs engaging digital lending platforms to source borrowers and/or to recover dues, the RBI has issued circular on loans sourced by Banks and NBFCs over digital lending platforms: adherence to fair practices code and outsourcing directs that wherever the Company engages digital lending platforms as their agents to source borrowers and/ or to recover dues, they must follow the following instructions:

- a) Names of digital lending platforms engaged as agents shall be disclosed on the website of the Company.
- b) Digital lending platforms engaged as agents shall be directed to disclose upfront to the customer, the name of the Company on whose behalf they are interacting with him.
- c) Immediately after sanction but before execution of the loan agreement, the sanction letter shall be issued to the borrower on the letter head of the Company.
- d) A copy of the loan agreement along with a copy each of all enclosures quoted in the loan agreement shall be furnished to all borrowers at the time of sanction/ disbursement of loans.
- e) Effective oversight and monitoring shall be ensured over the digital lending platforms engaged by the Company.
- f) Adequate efforts shall be made towards creation of awareness about the grievance redressal mechanism.

18. 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) Periodic testing by service provider of Business Continuity and Recovery Plan. Further occasional joint testing exercise with service provider shall also be undertaken.
- c) 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. Notably, it shall consider contingency plans at the Service Provider level; co-ordination of contingency plans at both levels and in the event of non-performance by the Service Provider.
- d) 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.
- e) 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.
- f) The Company shall ensure that service providers are able to isolate the Company's information, documents and records, and other assets. 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

19. 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) 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.
- d) 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 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.
- e) A robust system of internal audit of all outsourced activities shall also be put in place and monitored by the Committee or the Board.

20. Display of Details of Grievance Redressal Officer at their Branches

The Company shall ensure to display the name and contact details of 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. Company's Grievance Redressal Machinery shall also deal with the issue relating to services provided by the outsourced agency.

21. Maintenance of Records

- a) The records relating to all material activities outsourced shall be preserved so that the same is readily accessible for review by the Board of the Company and / or its senior management, as and when needed. The records shall be updated promptly and shall be placed for review before the Board or Committee.
- b) Such records shall be regularly updated and Redressal of grievances related to outsourced services

22. Due Diligence of Service Providers

Before entering into or renewing any outsourcing arrangement, comprehensive due diligence must be conducted to meticulously assess the service provider's capability to fulfill its obligations outlined in the outsourcing agreement. This assessment should encompass a wide range of factors, including qualitative, quantitative, financial, operational, and reputational aspects. It is crucial to evaluate the service provider's systems for compatibility with the NBFC's existing infrastructure and to ascertain if their performance standards, particularly in customer service, align with the NBFC's expectations. Furthermore, during this evaluation, the NBFC must also consider the potential risks associated with undue concentration of outsourcing arrangements with a single service provider, ensuring diversification where appropriate to mitigate dependency risks.

23. Redressal of Grievances related to outsourced services:

The Company shall report to Compliance Officer or Legal Head/ Department of the Company for grievances related to outsourced activity. The designated officer 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. The grievance redressal procedure of the Company and the time frame fixed for responding to the complaints shall be placed on the Company's website.

24. Reporting requirements

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