Punjab & Sind Bank

Policy on Outsourcing of Services

1. Preamble

1.1. The outsourcing of various activities is gaining momentum in the banking industry owing to rising manpower costs and technology upgradation. The outsourcing primarily aims at reducing cost and /or accessing specialist expertise not available internally and thus achieving strategic aims.

1.2. It is observed that the banks involved in outsourcing are exposed to various risks.

1.3. Reserve Bank of India, vide letter No. RBI/2006/167 DBOD.No. BP. 40/ 21.04.158/ 2006-07 dated November 3, 2006, has put in place a set of guidelines to address the risks that bank would be exposed to in a milieu of growing outsourcing activities.

1.4. It has therefore become essential to frame a comprehensive policy on outsourcing of services in order to bring them within regulatory purview and to protect the interest of the customers.

2. Outsourcing – Definition and Scope.

2.1. ‘Outsourcing' is defined as a bank'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 bank, now or in the future.

2.2. ‘Continuing basis' would include agreements for a limited period.

2.3. Outsourcing of activities can reduce Bank’s risk profile by transferring activities to others with greater expertise and scale to manage the risk associated with specialised business activities.

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2.4. The Bank may undertake outsourcing of various –

- **Financial services** for mobilisation of business and recovery of bank dues, such as, DSAs / DMAs / Recovery Agents, Sharing of ATMs, Delivery / collection of cash / drafts, Reconciliation job etc.;
- **Non-financial services** for technology related issues and activities not related to banking business, such as, security, house keeping, movement and archiving of record etc.

2.5. Outsourcing of financial services would include applications processing (loan origination, credit card), document processing, marketing and research, supervision of loans, data processing and back office related activities etc.

2.6. Audit related assignments to **CA firms** would continue to be governed by the instructions/policy laid down by **Deptt. of Banking Supervision, RBI.**
As such the Audit related assignments (i.e Concurrent Audit/ Revenue Audit/ Statutory Audit/ Stock Audit) to CA firms shall not form part of this Policy.

2.7. The outsourced services relating to **credit card** shall continue to be governed by instructions contained in RBI circular No. DBOD.FSD. BC.49/24.01.011,2005-06 dated 21.11.2005.

2.8. Outsourcing of all other services would be considered as non-financial services.

2.9. **Activities not to be Outsourced** :

2.9.1. Bank cannot outsource core management functions including Internal Audit, Compliance function and decision-making functions like determining compliance with KYC norms for opening deposit accounts, according sanction for loans (including retail loans) and management of investment portfolio.

3. ‘Material Outsourcing’ :

3.1 The essence of outsourcing arrangements lies in their effective implementation. The RBI has emphasised the need for reviewal of outsourcing arrangement in order to assess the quality of related risk management system, particularly in respect of “Material Outsourcing”.

3.2 All those outsourcing arrangements, which if disrupted, have the potential to significantly impact the business operations, reputation or profitability of the Bank are considered as “Material”.

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3.3 Any service outsourced may be treated as **“material”** where :

- Default on the part of service provider is likely to have impact on the Bank’s reputation and brand value and ability to achieve its business objectives, strategy and plan.
- More than one outsourcing arrangements are assigned to the same party.
- Access to customer profile and other confidential information is allowed to the service provider.
- The cost of outsourcing is more than **one per cent** of total operating expenses of the Bank, for the ended previous financial year.

4 Outsourcing of services.

4.1 While selecting service provider all relevant guidelines of Central Vigilance Commission and those issued by Head Office shall be adhered to.

4.2 Selection of service provider shall be done through open tender system.

4.3 While outsourcing any of financial & non-financial services, it shall be ensured by the respective department(s), that:

4.3.1 The relevant laws, regulations, guidelines and conditions of approval, licensing or registration are considered.

4.3.2 The service provider employs the high standard of care in performing the services as would be ordinarily done by the bank, if the activities were not outsourced.

4.3.3 Outsourcing arrangements neither diminish bank’s ability to fulfill its obligations to customers and RBI nor impede effective supervision by RBI.

4.3.4 Outsourcing shall not result in compromising or weakening of internal control, business conduct or reputation.

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4.3.5 The service provider is not in a position to impede or interfere with the ability of the bank to effectively oversee and manage its activities nor should it impede the Reserve Bank of India in carrying out its supervisory functions and objectives.

4.3.6 The service provider firm/entity is not owned or controlled by any director or officer/employee of the bank or their **relatives** having the same meaning as assigned under Section 6 of the Companies Act, 1956.

4.3.7 The service provider has infrastructure/capability to comply with obligations in the outsourcing agreement. Due diligence shall take into consideration qualitative and quantitative, financial, operational and reputational factors.

4.3.8 The service providers' systems are compatible with our own and their standards of performance including in the area of customer service are acceptable.

4.3.9 Issues relating to undue concentration of outsourcing arrangements with a single service provider are taken into consideration.

4.3.10 Independent reviews and market feedback on the service provider shall be taken to supplement Bank's own findings.

4.3.11 The name of the service provider is not in the caution list of defaulters in providing service, maintained by IBA.

4.4 In addition to above, the evaluation of service providers shall involve:

4.4.1 Past experience and competence to implement and support the proposed activity over the contracted period;

4.4.2 Financial soundness and ability to service commitments even under adverse conditions;

4.4.3 Business reputation and culture, compliance, complaints and outstanding or potential litigation;

4.4.4 Security and internal control, audit coverage, reporting and monitoring environment, Business continuity management;

4.4.5 External factors like political, economic, social and legal environment of the jurisdiction in which the service provider operates and other events that may impact service performance.

4.4.6 Ensuring due diligence by service provider of its employees.

4.5 The Bank shall be responsible for the action of the service provider engaged.

4.6 The outsourcing arrangement shall not affect the rights of a customer against the Bank.

4.7 Bank shall retain ultimate control of the outsourced activity.

5. <u>The Outsourcing Agreement</u>:

5.1. The Draft Outsourcing Agreement shall be prepared and got vetted from the Retainer Counsel by the concerned Department.

5.2. The terms and conditions governing the contract between the bank and the service provider, carefully defined in written agreements, **shall be sent to H.O Law & Recovery Department for examining their legal enforceability.**

5.3. The agreement shall 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.

5.4. The agreement shall also bring out the nature of legal relationship between the parties – i.e. whether agent, principal or otherwise.

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5.5. Some of the **key provisions of the outsourcing contract** would be:

5.5.1. The contract should clearly define what activities are going to be outsourced by the Bank, including appropriate service and performance standards.
In this respect the RBI has advised that the outsourcing contract should provide for prior approval/consent by the bank of the use of subcontractors by the service provider for all or part of an outsourced activity. Before giving their consent, banks should review the subcontracting arrangements and ensure that these arrangements are compliant with the extant guidelines on outsourcing.

5.5.2. The contract shall provide for continuous monitoring and assessment by the bank of the service provider so that any necessary corrective measure can be taken immediately.

5.5.3. A termination clause and minimum periods to execute a termination provision, if deemed necessary, shall be included.

5.5.4. Contingency plans to ensure business continuity, to be spelt out before allowing outsourcing.

5.5.5. The contract shall provide for the prior approval/consent by the bank of the use of sub-contractors by the service provider for all or part of an outsourced activity.

5.5.6. The bank shall ensure that it has the ability to access all books, records and information relevant to the outsourced activity available with the service provider.

5.5.7. The Bank shall exercise controls to ensure customer data confidentiality and service providers' liability in case of breach of security and leakage of confidential customer related information.

5.6. **The outsourcing agreement shall** :

5.6.1 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.

5.6.2 Outsourcing agreements shall include clauses to allow the Reserve Bank of India or persons authorised by it to access the bank’s documents, records of transactions, and other necessary information given to, stored or processed by the service provider within a reasonable time.

5.6.3 Outsourcing agreement shall also include clause to recognise the right of the Reserve Bank to cause an inspection to be made of a service provider of a bank and its books and account by one or more of its officers or employees or other persons.

5.6.4 The outsourcing agreement shall provide that confidentiality of customer's information shall be maintained even after the contract expires or gets terminated.

5.6.5 The outsourcing agreement shall provide for the preservation of documents and data by the service provider in accordance with the legal/regulatory obligation of the bank in this regard.

6. Risks envisaged in outsourcing :

6.1. The following key risks need to be evaluated and discussed by the respective departments, before outsourcing any activity: -

Risk Mitigation in Outsourcing Arrangements

Risk	Implication	Mitigation Measure
Strategic Risk	The service provider may conduct business on its own behalf, which is inconsistent with the overall strategic goals of the bank.	The service provider should be precluded from conducting business on its own behalf, which is inconsistent with the overall strategic goals of the Bank to avoid conflict of interest.
Reputation Risk	Poor service from the service provider, its customer interaction not being inconsistent with the overall standards of the Bank.	Service Level Agreement should specify bench marks, in line with standards of the Bank, for customer service / customer interaction.
Compliance Risk	Privacy, customer and prudential laws not adequately complied with.	Stringent provisions should be included in the Agreement to ensure that there is no breach in privacy of customer and no default to compliance to various regulatory requirements.

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Operational Risk	Arising due to technology failure, fraud, error, inadequate financial capacity to fulfill obligations and / or provide remedies.	Proper legal documentation including indemnity, penalty clauses as necessary, clauses for Exit and planning for Exit Strategy Risk etc.
Legal Risk	This 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.	Proper legal documentation including indemnity, penalty clauses as necessary to cover the risk implications.
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.	Formulation of Contingency / Business Continuity Plan(s), ongoing training of Bank's personnel in outsourced areas, ensuring compatibility of systems etc.
Country Risk	Due to the political, social or legal climate the service provider may not be in a position to carry out the obligations.	To be taken care at the time of awarding of contract and to be reviewed periodically. In all contracts, jurisdiction for legal, arbitration & other purposes will be India only.
Contractual Risk	Arising from whether or not the bank has the ability to enforce the contract.	Fragility in the contract crippling Bank's ability to enforce the same should be identified and removed.
Access Risk	Outsourcing arrangement hinders ability of regulated entity to provide timely data and other information to regulators.	Right to access by the Bank and the Regulator should be provided for in the agreement.
Concentration 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.	Outsourcing agreements should provide for adequate controls. Where a Service Provider enjoys a monopoly / near monopoly in the market, risk mitigation may be attempted jointly alongwith all stakeholders.

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7. Monitoring and Control - Outsourcing Committee(s) :

7.1. The **Centralised Cell created at Head Office P&D Deptt.** to co-ordinate amongst all departments, outsourcing activities, while monitoring and control shall vest with the respective departments.

7.2. The Cell shall maintain a central record of all outsourcing activities that is readily accessible for review by the Board and senior management of the bank.

7.3. The records shall be updated promptly and half yearly reviews shall be placed before the Outsourcing Committee and Board.

7.4. An **`Outsourcing Committee' shall be formed** consisting of following :-

- i. General Manager (Planning)
- ii. General Manager (H.R.D)
- iii. General Manager (L&R)
- iv. General Manager (IT)
- v. General Manager (Inspection)
- vi General Manager (GA)

Head of P&D Deptt. shall be the Convenor of the Committee.

7.5. The quorum of the Committee shall be any three members.

7.6. The senior most General Manager shall be the chairman of the outsourcing committee.

7.7. The Committee shall deliberate, evaluate, decide and approve (including renewal, cancellation, modification), the proposals relating to outsourcing of financial and non-financial services, recommended by sub-committee formed at the respective department wishing to outsource such services.

7.8. The Committee shall ensure that the department has identified alternate service provider and / or has a contingency plan to meet any situation arising by virtue of deficiency in service or failure on the part of service provider.

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7.9. It shall be endeavor of the Committee to spread the jobs/services among different service providers, to the extent possible. The Committee shall review the performance of different services outsourced on half-yearly basis.

7.10. Each department shall have its own outsourcing sub-committee to evaluate the need for any services (financial and non-financial) to be outsourced and for matters/services relating to the department.

7.11. The **Sub-Committee(s) shall consist** of:

a. GM of the concerned department.
b. Departmental head.
c. One Chief Manager (if no Chief Manager is posted in the department, Senior Manager may be included in the Committee).
d. One Senior Manager / Manager.

7.11.1 The **Sub-Committee(s) of Vigilance Department may consist of:**

(a) Departmental head.(i.e AGM/DGM)
(b)One Chief Manager (if no Chief Manager is posted in the department, Senior Manager may be included in the Committee).
(c) One Senior Manager / Manager.

7.12. The Sub-Committee(s) shall recommend approval, renewal, modification and cancellation etc., of outsourcing of services to the Outsourcing Committee. The Sub-Committee shall also review the performance of the service provider and put-up a note to the Outsourcing-Committee.

7.13. The outsourcing of services could be undertaken for the bank as whole or for specific regions, zones of the bank’s branch network after its approval at HO level.

7.14. **All activities proposed to be outsourced shall be approved by the following authority:-**

By CMD(and in his absence ED) – Individual cases involving expenditure up to 1% of operating expenses of the Bank for immediately preceding year, on recommendations of Outsourcing Committee. Where the expenditure involved is more than (a) above, the same shall be sent to Board for approval.

Thereafter Committee shall review the performance of different services outsourced inclusive of expenses on half yearly basis and shall be put up to the Board.

7.15. Regular audits by either the internal auditors or external auditors of the bank shall 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 the requirements of these guidelines.

7.16. 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 shall be based on all available information about the service provider and shall highlight any deterioration or breach in performance standards, confidentiality and security, and in business continuity preparedness.

7.16.1 Bank shall 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 Chief General Manager –in- charge, Department of Banking Supervision, Central Office Reserve bank of India, Mumbai.

*HO Inspection Department is already doing the audit on outsourcing and submitting the Annual Compliance Certificate to HO P&D Department. However they will ensure the rectification of the irregularities at their end.

7.17. In the event of termination of the agreement for any reason, the same shall be publicised so as to ensure that the customers do not continue to entertain the service provider.

8. <u>Confidentiality and Security</u>:

8.1. Public confidence and customer trust in the bank is a prerequisite for the stability and reputation of the bank.

8.2. The bank shall seek to ensure the preservation and protection of the security and confidentiality of customer information in the custody or possession of the service provider.

8.3. 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.

8.4. 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.

8.5. In instances, where service provider acts as an outsourcing agent for multiple banks, care shall be taken to build strong safeguards so that there is no co-mingling of information/documents, records and assets. All such clauses and covenants shall be made part of the outsourcing agreement.

8.6. The bank shall review and monitor the security practices and control processes of the service provider on a regular basis, which would form part of review note being put-up by the respective department and require the service provider to disclose security breaches.

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

8.8. Such information shall be maintained by respective department and inform RBI with permission of Outsourcing Committee.

9. **Role/Responsibilities of DSA/ DMA/ Recovery Agents:**

9.1. Code of conduct for **Direct Sales Agents** formulated by the Indian Banks' Association (IBA) shall be applicable for outsourcing services of Direct Sales Agents / Direct Marketing Agents / Recovery Agents.

9.2. Bank shall ensure that the Direct Sales Agents / Direct Marketing Agents/ Recovery Agents are properly trained to handle with care and sensitivity, their responsibilities particularly aspects like soliciting customers, hours of calling, privacy of customer information and conveying the correct terms and conditions of the products on offer etc. for which a brief assessment of their infrastructure may be studied.

9.3. **Recovery Agents** shall adhere to extant instructions on Fair Practices Code for lending (Circular DBOD. Leg. No. BC.104 /09.07.007 /2002-03 dated 5th May 2003) **RBI Circular DBOD. No.Leg.BC.75/09.07.005/2007-08 dated 24.04.2008** and the Indian Banks Association's code for collection of dues and repossession of security.

9.4 It is essential that the Recovery Agents refrain from action that could damage the integrity and reputation of the bank and that they observe strict customer confidentiality. In this regard the decisions of various judicial authorities as issued from time to time shall also be taken into consideration. Necessary clause to this effect may be included in the outsourcing contract(s).

9.5 In the case of outsourcing of services of recovery agents**,** the Bank and agents engaged 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.

10. Business Continuity and Management of Disaster Recovery Plan:

10.1 The bank shall require its service providers to develop and establish a robust framework for documenting, maintaining and testing business continuity and recovery procedures.

10.2 It shall be ensured by the respective department that the service provider periodically tests the Business Continuity and Recovery Plan and shall also consider occasional joint testing and recovery exercises with its service provider.

10.3 This shall form part of the outsourcing agreement.

10.4 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, which shall be governed through suitable clauses of the Outsourcing Agreement.

10.5 In establishing a viable contingency plan, bank 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.

10.6 Outsourcing often leads to the sharing of facilities operated by the service provider. The bank shall ensure that service providers are able to isolate the bank's information, documents and records, and other assets.

10.7 It may be ensured that, in adverse conditions, 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 continue its business operations, or deleted, destroyed or rendered unusable.

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11. Redressal of Grievances related to Outsourced service :

11.1.**General Manager (Inspection)** shall look into the redressal of grievances on account of deficiency in outsourced services. His name and contact number shall be placed on the bank's web site.

11.2. GM (I) shall ensure that genuine grievances of customers are redressed promptly without involving delay. It shall be clearly indicated that banks' Grievance Redressal Machinery will deal with the issues relating to services provided by the outsourced agency.

11.3. This machinery is being set-up to comply the directions of RBI, that the Bank would be ultimately responsible for the services rendered by its associates. Since majority of non-financial services would not impact the customers of the Bank directly, grievance redressal of the non-financial services outsourced shall be kept out of preview of this policy, initially.

11.4.Ordinarily, a time limit of 30 days shall 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 shall be placed on the bank's website.

11.5. If a complainant does not get satisfactory response from the bank within **30 days** from the date of his lodging the complaint, he will have the option to approach the Office of the concerned Banking Ombudsman for redressal of his grievance(s).

12. Reporting of transactions to FIU or other competent authorities

12.1. Banks shall make 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.

13. Centralised List of Outsourced Agents

13.1.Whenever the bank terminates a service provider's services, IBA would be informed, by the centralized outsourcing cell of the Bank at HO P&D Deptt., with reasons for such termination.

13.2.The centralized outsourcing cell at HO P&D Deptt., shall provide such information to the top management and co-ordinate among other departments, while each department shall send details of all outsourcing agreements entered into, expired, renewed, cancelled etc. and all other details as and when required to the centralized outsourcing cell at HO(P & D).

14. Off-shore outsourcing of Financial Services

14.1. Where the services outsourced are being provided in a foreign country, the bank shall take into account and closely monitor government policies and political, social, economic and legal conditions in countries where the service provider is based, during the risk assessment process and on a continuous basis, and establish sound procedures for dealing with country risk problems, including having appropriate contingency and exit strategies.

14.2.The activities outsourced outside India shall be conducted in a manner so as not to hinder efforts to supervise or reconstruct the India activities of the bank in a timely manner.

14.3.In principle, arrangements shall only be entered into with parties operating in jurisdictions generally upholding confidentiality clauses and agreements.

14.4“As regards the off-shore outsourcing of financial services relating to Indian Operations, Bank should additionally ensure that

a) Where the off-shore service provider is a regulated entity, the relevant off-shore regulator will neither obstruct the arrangement nor object to RBI Inspection visits/visits of Bank’s internal and external auditors.

b) The availability of records to management and the RBI will withstand the liquidation of either the offshore custodian or the Bank in India.

c) The regulatory authority of the offshore location does not have access to the data relating to Indian operations of the Bank 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 Bank).

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d)The jurisdiction of the courts in the off shore location where data is maintained does not extend to the operations of the bank 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

e) All original records continue to be maintained in India.

14.5 Reserve Bank of India vide letter no. DBS.CO. PPD. BC /6 /11. 01 .005/2008-09 dated 27.04.2009 has revised Guidelines relating to Record Maintenance policy of the Banks.

In terms of Reserve Bank of India guidelines issued vide circulars DBOD.No.BP.40/21.04.158/2006-07 dated 03.11.2006 and DBOD.No.BP.97 /21.04.158 /2008-09 December 11,2008 on 'Guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by Banks', it will not be necessary for the bank to obtain prior approval of RBI for maintaining records in offshore locations. Bank is however advised to ensure strict compliance with the guidelines contained in the above two circulars.

15. <u>Existing outsourcing proposals</u>.

15.1 In terms of Reserve Bank of India guidelines issued vide circular DBR.No.BP.BC.76/21.04.158/2014-15 dated March 11, 2015 on 'Guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by Banks',an ageing analysis of entries pending reconciliation with outsourced vendors should be placed before the Audit Committee of the Board (ACB) by the respective HO departments who carried out the outsourcing activities and to make all out efforts to reduce the old outstanding items therein at the earliest.
The HO Inspection Department will put in place a robust system of internal audit of all outsourced activities and place before the ACB for monitoring.

15.2 In the light of this policy, <u>all departments shall review and do self-assessment of their existing outsourcing agreements within a period of six months,</u> from the date the policy is implemented, and bring them in line with these guidelines expeditiously.

15.3 Audit-related assignments to Chartered Accountant firms and credit card related matters shall continue to be governed by instructions / guidelines issued by RBI.

16. Review.

16.1. The Policy may be reviewed by the Board once in a year at least or whenever the need so arises, after calling for suggestions from different departments.
