



**BABA LEASE AND INVESTMENT
PRIVATE LIMITED**
(R.B.I. Registered NBFC)
OUTSOURCING POLICY

Version	Approval Date	Approved By
V1	31 st May 2023	Board of Directors

1. INTRODUCTION:

This Policy shall be termed as Outsourcing Policy of Baba Lease and Investment Private Limited. The terms in this policy shall be considered as defined by the Reserve Bank of India in its various directions, guidelines as issued and may be issued from time to time and, or as defined herein below.

The Directions are applicable to material outsourcing arrangements as defined in this Policy which may be entered into by the Company with a service provider, who may be either a member of the group/conglomerate to which the Company belongs or an unrelated party, located in India or elsewhere.

Since, the third party may not be subject to the regulatory discipline and accountability, outsourcing raises a variety of concerns both for the regulator and the outsourcing intermediaries.

The Company has framed a Policy keeping in view of the same. Outsourcing relationships shall be governed by written contracts / agreements that clearly describe all material aspects of the outsourcing arrangement, including the rights, responsibilities and expectations of the parties to the contract, client confidentiality issues, termination procedures, etc.

The terms in this Policy shall be considered as defined by the RBI in its various Directions, Guidelines and Notification issued from time to time on the subject matter and as defined herein below.

The objective of this Policy is to adopt sound and responsive risk management practices for effective oversight, due diligence and management of risk arising from outsourcing activities.

2. SCOPE OF THE POLICY

The policy incorporates the criteria for selection of the activities that may be outsourced, risks arising out of outsourcing and management of these risks, due diligence of outsourcing service providers, delegation of powers depending on risks & materiality, systems to monitor and review the operations of these activities.

3. OUTSOURCING:

Outsourcing may be defined as a Company'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 Company itself, now or in the future.

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

The activities shall refer to outsourcing of financial services and are not applicable to technology related issues and activities not related to financial services, such as usage of courier, catering of staff, housekeeping and janitorial services, security of the premises, movement and archiving of records, etc.

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

- Field investigation;
- Call Centre Services;
- Legal Services;
- Information Technology Services;
- Collections and Debt Recovery Services;
- Human Resources Management and Recruitment Services;
- Payroll Management Services;
- Data processing;
- Application / Software Maintenance Services;

Decision making process in relation to the above services shall always lie with the Company.

The above list is inclusive only not exhaustive. Additional activities within the definition of outsourcing can also be outsourced by the company.

4. ACTIVITIES THAT SHOULD NOT BE OUTSOURCED:

The Company shall not outsource its core and critical activities. An illustrative list of activities that cannot be outsourced:

- i. Maintenance and safekeeping of critical data;
- ii. Monitoring and redressal of investor grievances;
- iii. Surveillance Functions;
- iv. Management of Investment portfolio;
- v. Decision making functions such as determination of KYC norms for loan processing/account opening and / or according sanction for loans;
- vi. Internal Audit;
- vii. Strategic and Compliance functions;
- viii. Management of Investment portfolio;

Subject to compliance with this policy, the Company is entitled to outsource these functions in a group/ conglomerate. Also, the internal audit function itself is a management process, the internal auditors can however, be on contract.

5. RISK ARISING OUT OF OUTSOURCING

Outsourcing of financial services exposes a Company to a number of risks which may not be appropriately evaluated and effectively managed & mitigated. The key risks that may arise due to outsourcing are:

1. Strategic Risk – Where the service provider conducts business on its own behalf, inconsistent with the overall strategic goals of the Company.
2. Reputation Risk – Where the service provided is poor and customer interaction is not consistent with the overall standards expected of the Company.

3. Compliance Risk – Where privacy, consumer and prudential laws are not adequately complied with by the service provider.
4. Operational Risk- Arising out of technology failure, fraud, error, inadequate financial capacity to fulfil obligations and/ or to provide remedies.
5. Legal Risk – Where the Company is subjected to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements due to omissions and commissions of the service provider.
6. Exit Strategy Risk – Where the Company is over-reliant on one firm, the loss of relevant skills in the Company itself preventing it from bringing the activity back in-house and where Company has entered into contracts that make speedy exits prohibitively expensive.
7. Counter party Risk – Where there is inappropriate underwriting or credit assessments.
8. Contractual Risk – Where the COMPANY may not have the ability to enforce the contract.
9. Concentration and Systemic Risk – Where the overall industry has considerable exposure to one service provider and hence the Company may lack control over the service provider. The failure of the service provider in providing the desired services covered by the terms of agreement or any non-compliance of any legal / regulatory requirements by the service provider can lead to reputational or financial loss for the company which can trigger a systematic risk in the related system as such. The imperative therefore will be securing effective management by the Company for mitigation of this risk.
10. Country Risk – Due to the political, social or legal climate creating added risk.

6. MANAGEMENT OF RISKS

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.

7. GENERAL APPRAISAL

- i. While outsourcing a financial activity, the Company shall consider all relevant laws, regulations, guidelines and conditions of approval, licensing or registration.
- ii. The Company shall retain ultimate control of the outsourced activity, as outsourcing of any activity by the Company does not diminish its obligations, and those of its Board and Senior Management, who have responsibility for the outsourced activity. The Company shall therefore remain responsible for the actions of its service provider including Direct Sales Agents/ Direct Marketing Agents and recovery agents and the confidentiality of information pertaining to the customers that is available with the service provider.
- iii. The outsourcing arrangements shall neither diminish the Company's ability to fulfill its obligations to customers and RBI nor impede effective supervision by RBI. The Company shall, therefore, ensure that the service provider employs the same high standard of care in performing the services as would be employed by the Company, if the activities were conducted within the Company and not outsourced.

- iv. The Company shall not engage in such outsourcing that would result in its internal control, business conduct or reputation being compromised or weakened.
- v. The Company shall ensure that the service provider does not impede or interfere with the ability of the Company to effectively oversee and manage its activities nor does it impede the RBI in carrying out its supervisory functions and objectives. Therefore, the right of the Company and the RBI to access all books, records and information available with the service provider should remain protected.
- vi. The Company shall continue to have a robust grievance redressal mechanism, which shall not be compromised on account of outsourcing. Outsourcing arrangements shall not affect the rights of the customer against the Company, including the ability of the customer to obtain redress as applicable under relevant laws. While outsourcing a related party (i.e. party within the Group/Conglomerate), the Company shall adopt the identical risk management practices as in case of service providers external to the Corporate group.

8. DISCRETION OF OUTSOURCED ACTIVITIES:

- The discretion for outsourcing activities will rest with the Risk Management Committee, who will be responsible for the following:
 1. evaluating the risks and materiality of all existing and prospective outsourcing, based on the framework approved by the Board;
 2. developing and implementing sound and prudent outsourcing policies and procedures commensurate with the nature, scope and complexity of the outsourcing activity;
 3. reviewing periodically the effectiveness of policies and procedures;
 4. communicating information pertaining to material outsourcing risks to the Board in a timely manner;
 5. ensuring that contingency plans, based on realistic and probable disruptive scenarios, are in place and tested;
 6. ensuring that there is independent review and audit for compliance with set policies; and
 7. undertaking periodic review of outsourcing arrangements to identify new material outsourcing risks as they arise.
- No part of the outsourced activity shall be sub-contracted unless and otherwise specifically stipulated in the contract explicitly. Any proposal by service provided 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 Risk Management Committee of the Company.
- Access to various data would be restricted to areas required to perform outsourced functions only and in no case should details of the customers and other sensitive data be shared with the agents so as to impair confidentiality.
- 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. APPRAISAL OF SERVICE PROVIDER:

While outsourcing or renewing contract of outsourcing of an activity with a service provider, the Company shall take into consideration:

- i. That the Service Provider, if it is not a subsidiary of the Company, is not owned or controlled by any Director or Officer/ Employee of the Company or their relatives having the same meaning as assigned under the Companies Act, 2013.
- ii. The capability of the service provider to comply with obligations in the outsourcing agreement such as:
 - a. Qualitative, quantitative, financial, operational and reputational factors
 - b. Compatibility with their own systems
 - c. Ability to develop and establish a robust framework for documenting, maintaining and testing business continuity and recovery procedures so that the service provider shall periodically test the Business Continuity and Recovery Plan and occasional joint testing and recovery exercises with its service provider and jointly conducted by the Company;
 - d. Outsourcing often leads to the sharing of facilities operated by the service provider. The Company shall ensure that service providers are able to isolate the 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. Where service provider acts as an outsourcing agent for multiple companies, care shall be taken to build strong safeguards so that there is no commingling of information/documents, records and assets.

Additionally, the Company shall conduct appropriate due diligence in selecting the third party to whom any activity is proposed to be outsourced. It shall be ensured that outsourced activities are further outsourced downstream only with the prior consent and with appropriate safeguards including proper legal documentation/ agreement.

10. EXERCISING DUE-DILIGENCE:

In order to examine the capability on the above points mentioned at Para 8 an evaluation shall be conducted of all available information about the service provider, including but not limited to: -

- i. Past experience and competence to implement and support the proposed activity over the contracted period;
- ii. Financial soundness and ability to service commitments even under adverse conditions;
- iii. Business reputation and culture, compliance, complaints and outstanding or potential litigation;
- iv. Standards of performance including in the area of customer service;
- v. Security and internal control, audit coverage, reporting and monitoring environment, Business continuity management;
- vi. The Company shall ensure that the service provider has performed a due diligence of its employees
- vii. Wherever possible, the Company shall obtain independent reviews and market feedback on the service provider to supplement its own findings.
- viii. The Company shall avoid undue concentration of outsourcing arrangements with a single service provider.
- ix. Public confidence and customer trust in the Company is a pre-requisite for the stability and reputation of the Company. Hence the Company 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. As such, 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.

- x. 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 companies, care shall be taken to build strong safeguards so that there is no comingling of information / documents, records and assets.

11. CONFIDENTIALITY AND SECURITY:

- i. Public confidence and customer trust in the Company is a prerequisite for the stability and reputation of the Company. Hence, the Company 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.
- 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 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 Companies/ NBFC’s, care shall be taken to build strong safeguards so that there is no comingling of information/ documents, records and assets.
- iv. 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.
- v. 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.

12. MATERIAL OUTSOURCING:

Material outsourcing arrangements are those which, if disrupted, have the potential to significantly impact the business operations, reputation, profitability or customer service. Materiality of outsourcing would be based on:

1. the level of importance to the Company of the activity being outsourced as well as the significance of the risk posed by the same;
2. the potential impact of the outsourcing on the Company on various parameters such as earnings, solvency, liquidity, funding capital and risk profile;
3. 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;
4. the cost of the outsourcing as a proportion of total operating costs of the Company; and
5. the aggregate exposure to that particular service provider, in cases where the Company outsources various functions to the same service provider and the significance of activities

outsourced in context of customer service and protection.

13. POST OUTSOURCING APPRAISAL

In order to mitigate the risk of unexpected termination of the outsourcing agreement or liquidation of the service provider, the Company shall:

- i. Retain an appropriate level of control over its 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.
- ii. Establish a viable contingency plan to 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.
- iii. 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.
- iv. 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 damage

14. OUTSOURCING WITHIN THE GROUP/CONGLOMERATE:

1. In a group structure, the Company may have back-office and service arrangements/ agreements with group entities e.g. sharing of premises, legal and other professional services, hardware and software applications, centralize back-office functions, outsourcing certain financial services to other group entities, etc. Any service level agreements/ arrangements to be executed between the Company and the group entities, shall be guided within the terms and conditions mentioned in this Policy with precise demarcation of sharing resources, i.e., premises, personnel, etc., subject to prior approvals as per the Companies Act, 2013 (including any enactments/ amendments thereof) required to enter into such related party agreements/ arrangements. 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.
2. While entering into such arrangements, Company shall ensure that these:
 - i. are appropriately documented in written agreements with details like scope of services, charges for the services and maintaining confidentiality of the customer's data;
 - ii. 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;
 - iii. do not compromise the ability to identify and manage risk of the COMPANY on a stand-alone basis;

- iv. 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
 - v. 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.
3. 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.
4. If the premises of the Company are shared with the group entities for the purpose of cross-selling, Company shall take measures to ensure that the entity's identification is distinctly visible and clear to the customers. The marketing brochure used by the group entity and verbal communication by its staff / agent in the Company premises shall mention nature of arrangement of the entity with the Company so that the customers are clear on the seller of the product.
5. 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.
6. The risk management practices expected to be adopted by the Company while outsourcing to a related party (i.e. party within the Group / Conglomerate) would be identical to those specified in this Policy and directions as may be issued by Reserve Bank of India from time to time.

15. OUTSOURCING AGREEMENT:

The terms and conditions governing the contract between the Company and the service provider shall be carefully defined in written agreements and vetted by Company's legal counsel on their legal effect and enforceability. Every such agreement shall address the risks and risk mitigation strategies. 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. The agreement shall also bring out the nature of legal relationship between the parties - i.e. whether agent, principal or otherwise. Some of the key provisions of the contract shall be the following:

- i. the contract shall clearly define what activities are going to be outsourced including appropriate service and performance standards;
- ii. the Company must ensure it has the ability to access all books, records and information relevant to the outsourced activity available with the service provider;
- iii. the contract shall provide for continuous monitoring and assessment by the Company of the service provider so that any necessary corrective measure can be taken immediately;
- iv. a termination clause and minimum period to execute a termination provision, if deemed necessary, shall be included;
- v. 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;

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

16. DELEGATION OF POWERS FOR APPROVING OUTSOURCING ACTIVITIES

Delegation of powers for approving outsourcing activities and reviewing the same shall remain with the Board of Directors.

17. MONITORING AND CONTROL OF OUTSOURCED ACTIVITIES:

The Company shall have in place a management structure to monitor and control its outsourcing activities. It shall ensure that outsourcing agreements with the service provider contain provisions to address their monitoring and control of outsourced activities.

- i. A central record of all material outsourcing that is readily accessible for review by the Board and senior management of the Company shall be maintained. The records shall be updated promptly and half yearly reviews shall be placed before the Board or Risk Management Committee.
- ii. 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 policy and relevant RBI Directions issued by RBI in this regard.
- iii. 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.
- iv. In the event of termination of the outsourcing agreement for any reason in cases where the service provider deals with the customers, the same shall be publicized by displaying at a prominent place in the branch, posting it on the web-site, and informing the customers so as to ensure that the customers do not continue to deal with the service provider.
- v. A robust system of internal audit of all outsourced activities shall also be put in place and

monitored by the Audit Committee of the Company.

18. ROLE OF DIRECT SALE AGENTS (DSA)/DIRECT MARKETING AGENT (DMA)/RECOVERY AGENTS:

Services under these categories like engagement of Business Correspondents (BC), Enforcement Agents and Recovery Agent shall also be reckoned as outsourced activity for the Company and will be covered under the purview of these guidelines.

19. OFFSHORE OUTSOURCING OF FINANCIAL SERVICES:

1. 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. 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.
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 Company in a timely manner.
3. As regards the off-shore outsourcing of financial services relating to Indian Operations, the Company shall additionally ensure that:
 - a) Where the off-shore service provider is a regulated entity, the relevant off-shore regulator will neither obstruct the arrangement nor object to RBI inspection visits/visits of Company'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 Company in India.
 - c) 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).
 - d) 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
 - e) All original records continue to be maintained in India.

20. REDRESSAL OF GRIEVANCES RELATED TO OUTSOURCED ACTIVITIES:

1. The Company has constituted a Grievance Redressal machinery and given wide publicity to it through electronic and print media. The name and contact number of designated grievance redressal officer of the Company is made known and widely publicized. The designated grievance officer should ensure that genuine grievances of customers are redressed promptly without involving delay and will also deal with the issues relating to services provided by the

outsourced agency.

2. Time limit of 30 (thirty) days may be given to the customers for preferring their complaints/grievances. The grievance redressal procedure of the Company and the time frame fixed for responding to the complaints are well defined in the Company's Grievance Redressal Policy.

21. REPORTING OF TRANSACTIONS TO FIU OR OTHER COMPETENT AUTHORITIES:

The Company would be responsible for making Suspicious Transactions Reports to FIU or any other competent authority in respect of the Company's customer related activities carried out by the service providers.

22. SUCCESS OF OUTSOURCING

Success of outsourcing rests on proper selection of the service provider with due diligence, risk analysis and mitigation plans put in place. Above all strict and continuance monitoring/supervising of performance should be in place, for which necessary personnel must be deployed.

23. REVIEW OF THE POLICY

This Policy will be reviewed annually, keeping in view the guidelines/directions issued by RBI, Ministry of Finance, Board of Directors etc.