

**TAMIL NADU TRANSPORT DEVELOPMENT FINANCE CORPORATION LIMITED,
CHENNAI - 600 002.**

OUTSOURCING POLICY

1. Introduction

Tamil Nadu Transport Finance Corporation Limited (herein referred to as “TTDFC” or “The Company”) Is a systematically important, deposit taking, Non-Banking Finance Company

(NBFC-D-SI) registered with RBI. TTDFC provides debt facility to Tamil Nadu State Transport Undertaking

‘Outsourcing’ is defined as NBFC’s use of a Third – party here after referred as (“Service Provider”) To perform activities on continuing basis that would normally be undertaken by the NBFC itself, now Or in the future ‘continuing basis’ includes agreement for a limited period.

Typically, ‘Outsourced financial services’ includes application processing (Loan origination), Document processing, marketing and research, supervision of loans, data processing and back office Related activities, besides others,

2. Objectives & Regulatory Framework

TTDFC intending to outsource any of its financial activities shall put in the place of comprehensive outsourcing policy approved by its Board, which incorporates, inter alia criteria for selection of such activities as well as service providers, delegation of authority depending on risk and materiality and system to monitor and review the operation of these activities.

The objective of having policy in place off for outsourcing activity is to protect the interest of the Customers and investors of TTDFC and to ensure that the company and the Reserve Bank of India have access to all relevant books, records and information available with service provider and to ensure that outsourcing arrangements neither diminish its ability to fulfil its obligation to consumers and RBI nor impede effective supervision by RBI.

TTDFC therefore shall take steps to ensure that the service provider employs the same high standard of care in performing the as is expected to be employed by the TTDFC, as if the activities were conducted within the TTDFC and not outsourced, accordingly, TTDFC not engage in Outsourcing that would result in the company’s internal control, business conduct or reputation being compromised or Weakened

RBI Directions

RBI issued directions on Managing Risk and Code of Conduct in outsourcing of financial services by NBFCs. The direction are applicable to material outsourcing arrangements which may be entered Into by an NBFC with a service provider located in India. The service provider may Either be a member of the group / conglomerate to which the NBFC belong or unrelated party. These directions are concerned with managing risks in outsourcing of financial services and are not Applicable to technology-related issue and activities which are 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.

Activities that shall be outsourced

TTDFC if choose to outsource financial services shall not outsource following services:

- Core management functions including **internal audit**, strategic and compliance functions.
- Decision making function such as determining compliance with KYC norms.
- Sanction of loans
- Management of information portfolio

However, for NBFCs in a group/ conglomerate, these functions may be outsourced within the group subject to compliance with instructions elaborated below in outsourcing within the group

Material Outsourcing Means

For the purpose of these directions, material outsourcing arrangements are those which, if disrupted, Have potential to significantly impact the business operations, reputation, profitability or customer Service. Materiality of outsourcing would be based on various factors mentioned below:

- The level of importance to the NBFC on activity of being outsourced as well as the significance Of the risk posed by outsourced activity;
- The potential impact of the outsourcing activity on the NBFC on various parameters such as Earning, solvency, liquidity, funding capital and risk profile;
- The likely impact on the NBFC's reputations and brand value, and ability to achieve its business Objectives, strategy and plans, if the service provider fails to perform the services;
- The cost of the outsourcing activity as a proportion of total operating costs of the NBFC;
- The aggregate exposure to the particular service provider, in case where the NBFC outsources Various functions to the same service provider and
- The significance of activities outsourced in context of customer service and protection.

3. Roles & Responsibility

i. Roles & Responsibility of Board of Directors

- Approving a framework to evaluate the risk and materiality of all existing and prospective Outsourcing activities and the policies that apply such arrangements;
- Deciding on business activities of a material nature to be outsourced and approving such arrangements
- Setting up suitable administrative framework of senior management for the purpose of these directions;
- Undertaking regular review of outsourcing strategies and arrangements for their continued Relevance, safety and soundness;
- Shall take the responsibilities for the actions of their service provider
- Shall take the responsibility to maintain the confidentiality of information pertaining to the Customer that is available with the service provider;
- Shall ensure that the service provider, if not a group of company of the TTDFC, shall not be Owned or controlled by any director of the company or their relatives. These terms have the same meaning as assigned under Companies Act, 2013.

ii. Roles & Responsibility of Senior Management & Team

- Evaluating the risk and materiality of all existing and prospective outsourcing based on the Frame work approved by the Board;
- Developing and implementing sound and prudent outsourcing policies and procedures Commensurate with the nature, scope and complexity of outsourcing activity;
- Reviewing periodically the effectiveness of policies and procedures;
- Communication information pertaining to material outsourcing risk to the board in timely Manner
- Ensuring that the contingency plans, based on realistic and probable disruptive scenarios Of service provider, are in place and tested;
- Ensuring that there is independent review and audit for compliances with set policies;
- Undertaking periodic review of outsourcing arrangements to identify new material Outsourcing risks as they rise and
- Shall ensure to have robust grievance redress mechanism, which in no way shall be Compromised on account of outsourcing.

4. Risk in Outsourcing

The key risk in outsourcing are Strategic Risk, Compliance Risk, Operational Risk, Legal Risk, Exit Strategy Risk, Counter Party Risk, Country Risk, Concentration and Systemic Risk. The failure of a service provider in providing specified service a breach in security/ confidentiality, or non-compliance with legal and regulatory requirements by the service provider can lead to financial losses or loss reputation of the company.

The TTDFC shall evaluate and calculate and guard against the following risks in outsourcing;

- **Strategic Risk** – Where the service provider conducts business on its own behalf, inconsistent With the overall strategic goals of the company.
- **Compliance Risk** – Where privacy, consumer and prudential laws are not adequately complied With by the service provider.
- **Operational Risk** – Arising out of technology failure, fraud, error, inadequate financial capacity to fulfil obligations and / or to provide remedies.
- **Legal Risk** – Where the TTDFC may be subjected to fines, penalties, or punitive damages resulting from supervisory actions.
- **REPUTATION RISK** – Where the service provided is poor and customer interaction is not consistent with overall standards expected of the company.
- **Exit Strategy Risk** – where the company may over-reliant on one firm, the loss of relevant skills in the company itself preventing it from bringing the activity back in-house and contracts that made speedy exits prohibitively expensive.
- **Counter party Risk** – where there is inappropriate underwriting or credit assessments.
- **Contractual Risk** – Where the TTDFC may not have the ability to enforce the contract.
- **Concentration and Systemic Risk** – Where the overall industry is considerable exposure to one service provider and hence the company may lack control over the service provider.
- **Country Risk** - Due to political, social (or) legal, climate creating additional risk.

5. Evaluation & Selection of Service Provider

In considering or renewing an outsourcing arrangement, appropriate due diligence shall be performed to assess the capability of the service provider to comply with obligations in the Outsourcing agreement. Due diligence shall take into consideration qualitative and quantitative, financial and operational factors.

TTDFC shall consider whether the service provider's systems are compatible with its own and also whether their standards of performance including in the area of customer service are acceptable to it. The shall also consider, issue relating to undue concentration of outsourcing arrangements with a single service provider. Where ever possible, the company shall obtain independent reviews and market feedback on the service provider to supplement its own findings.

Due diligence shall involve an evaluation of all available information about the service provider, including but not limited to the following:

- Past experience and competence to implement and support the proposed activity over the contraction period;
- Financial soundness and ability to service commitments even under adverse conditions;
- Business reputation and culture, compliance, complaint and pending / potential litigations;
- Security and internal control, audit coverage, reporting and monitoring environment, business continuity management and ensuring due diligence by service provider of its employees.

Further if due diligence seems all right then the selection should be done as follows:

- Service provider's resources and capabilities, including financial soundness, to perform the outsourcing work within the timelines fixed;
- Compatibility of the practices and system of the service provider with the TTDFC's requirements and objectives.
- Market feedback of the prospective service provider's business reputation and track record of their service rendered in the process;
- Level of concentration of the outsourced arrangements with a single party;

6. Outsourcing Agreement

TTDFC shall ensure the terms and conditions governing the contract with the service are Carefully defined in written Agreements and vetted by TTDFC's legal team on their legal effect and enforceability. Ever such agreement shall address the risk and risk mitigation strategies. The agreement shall be sufficiently flexible to allow the TTDFC to retain an appropriate level of control 8over 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 relationships between the parties.

TTDFC shall consider some of the key provisions while entering into contract with the service provider which are mentioned below:

- The contract shall clearly define the activities are going to be outsourced including appropriate service and performance standards;
- Ensure the TTDFC has the ability to access all books, records and information relevant to the outsourced activity available with the service provider;
- The contract shall provide for continues monitoring and assessment of the TTDFC of the service provider so that any necessary corrective measure can be taken immediately;
- Termination clause and minimum period to execute a termination provision, if deemed necessary shall be included;
- 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;
- The contract shall provide for the prior approval / consent by the TTDFC of the use of subcontractors by the service provider for all or part of an outsourced activity; and findings made on the service provider in conjunction with the services performed for the TTDFC;
- Outsourcing agreements shall include clause to allow the Reserve Bank of India or persons authorized by it to access the TTDFC's documents, record of transactions, and other necessary information given to, stored or processed by the service provider within a reasonable time;
- Outsourcing agreement can also include a clause to recognize the right of the Reserve Bank to cause an inspection to be made by a service provider of the company and its books and account by one or more of its officers or employees or other persons;
- The outsourcing agreement shall also provide that confidentiality of customer's information shall be maintained even after the contract expires or get terminated and the TTDFC 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

Further care shall be taken to ensure that the outsourcing agreement:

- Clearly defines what activities are going to be outsourced, including appropriate service and performance levels
- Provides for mutual rights, obligations and responsibilities of the company and the service Provider, including indemnity of the parties;
- Provides of the liability of the service provider to the company for unsatisfactory Performance / other breach of the contract;
- 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 class, etc.

7. Confidential and Security

Public confidence and customer trust are prerequisites for the stability and reputations of the company. Hence the TTDFC shall seek to ensure the preservation and protection of the security and confidentiality of the customer information in the custody or possession of the service provider. TTDFC shall ensure that:

- 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
- The service provider is able to isolate and clearly identify the TTDFC's customer information documents, record and assets to protect the confidentiality of the information

In instances, where service provider act as outsourcing agent for multiple NBFCs, care shall be taken to build strong safeguard so that there is no commingling of information / documents records and assets.

- Regular review and monitoring of the security practices and control process of the service provider and require the service provider to disclose security breaches.
- Immediate notifying to RBI in the event of any breach of security and leakage of confidential customer related information.

8. Business Continuity and Management of Disaster Recovery Plan

The company shall require its service providers to develop and establish a robust framework for documenting, maintaining and testing business continuity and recovery procedures. TTDFC shall ensure that the service provider periodically tests the business continuity and recovery plan and may also consider occasional joint testing and recovery exercise with its service provider.

In order to mitigate the risk of unexpected termination of the outsourcing agreement or liquidation of the service provider, the company shall retain appropriate measure to continue its business operations in such case without incurring prohibitive expenses and without any break in the operations of the company and its service to the customers.

In establishing a viable contingency plan, TTDFC 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.

TTDFC will make sure that the service providers are able to isolate the company's information, documents and records, and other assets so that in appropriate situations, all documents, records of transactions and information given to the service provider, assets of the TTDFC, can be removed from the possession of the service provider in order continue its business operations, or deleted, destroyed or rendered unusable.

9. Monitoring and Control of Outsourced Activities

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 record shall be updated promptly and on half yearly basis reviews shall be placed before the Board or Risk Management Committee.

Regular audits would be done by either the internal auditors or external auditors of the company to assess the adequacy of the risk management practices adopted in overseeing and managing the outsourcing arrangement.

TTDFC 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 business continuity preparedness.

In the event of termination of the outsourcing agreement for any reason in case where the service provider deals with the customers, the same shall be publicized by displaying at a prominent place in all the offices, posting it on the website, and informing the customers so as to ensure that the customers do not continue to deal with the service provider.

A robust system of internal audit of all outsourced activities shall also be put in place and monitored by the company.

10. Redress of Grievances related outsourced Services

i. NBFCs shall constitute Grievance Redressal Machinery as contained in RBI's circular on Grievance Redressal Mechanism vide DNBS. CC. PD. No. 320/03. 10. 01/2012-13 dated February 18, 2013. At the operation level, all NBFCs shall display the name and contact details (Telephone/ Mobile nos. as also email address) of the 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. It shall be clearly indicated that NBFC's Grievance Redressal Machinery will also deal with the issue relating to services provided by the outsourced agency.

ii. Generally, a time limit of 30 days may be given to the customers for preparing their complaints/ grievances. The grievance redressal procedure of the NBFC and the time frame fixed for responding to the complaints shall be placed on the NBFC's website.

11. Outsourcing within the group

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 to other group entities etc.

Before entering into such arrangements with group entities the company shall have an arrangement with their group entities which shall also cover demarcation of sharing resources i.e. premises, personnel, etc. Moreover, the customer 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, TTDFC shall ensure that:

- Arrangements are appropriately documented in written agreements with details like scope of service charges for the services and maintaining confidentiality of the customer's data;
- Such arrangements does not lead to any confusion to the customers on whose product / services they are availing by clear demarcation of the space where the activities of TTDFC;
- TTDFC 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
- If the premises of the TTDFC are shared with the group entities for the purpose of cross – selling, clear to the customer. The marketing brochure used by the group entity and verbal communication by its staff / agent in the TTDF premises shall mention nature of arrangement of the entity with the TTDFC so that the customers are clear on the seller of the product.
- TTDFC 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.

(V. Venkatarajan)
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