

### ***RBI Directions on Managing risks and Code of Conduct in Outsourcing of Financial Services by Non-Banking Financial Companies***

The Reserve Bank of India (RBI) issued directions on outsourcing of financial services by NBFCs on 09 November, 2017 (the draft guidelines were issued in April 2015). Existing NBFCs have been directed to conduct a self-assessment of their existing outsourcing arrangements and bring these in line with the directions within two months from the date of the circular.

#### ***1. Applicability of the directions***

The directions are applicable to material outsourcing arrangements\* and relate to managing risks in the outsourcing of financial services. The directions are not applicable to technology related issues and activities not related to financial services, such as using couriers, housekeeping, security of premises, movement and archiving of records, etc.

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

- Level of its importance to the NBFC and significance of the risk
- Potential impact of outsourcing on the NBFC on parameters such as earnings, solvency, liquidity, risk profile
- Likely impact on the NBFC's reputation and brand value
- Cost of outsourcing
- Aggregate exposure to that particular service provider
- Significance of activities outsourced in context of customer service and protection

#### ***2. Definition of outsourcing***

“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. “Continuing basis” includes agreements for a limited period.

#### ***3. Activities that cannot be outsourced***

- Core management functions, including internal audit (internal auditors can be on contract).
- Strategic and compliance functions and decision making functions, such as determining compliance with KYC norms for opening deposit accounts, according sanction for loans and management of investment portfolio.
- These functions may be outsourced within the NBFC's group entities subject to compliance with certain instructions.

#### ***4. Provisions relating to specific outsourcing***

<b><i>Outsourcing within a group/ conglomerate</i></b>	<b><i>Offshore outsourcing</i></b>
i. Board approved policy and service level agreements to be in place	i. Government policies, political, social, economic conditions of the country of service provider to be monitored

ii. Demarcation of sharing resources, i.e., premises, personnel to be included in the agreements	ii. Contingency and exit strategies to be in place
iii. Customers to be informed about the entity that is actually offering the product/ service	iii. Arrangements to be limited to service providers present in jurisdictions that uphold confidentiality clauses and agreements
iv. Arrangement to not compromise the ability to identify and manage risks of the NBFC on a standalone basis	iv. Offshore regulator (if any) to not obstruct outsourcing arrangements, RBI inspections or auditor visits and will not have access to NBFC's data, except in some cases
v. Arrangement to ensure that the RBI can obtain required information	v. Availability of records to management and the RBI (even in liquidation of either the offshore custodian or the NBFC in India)
vi. Non-availability of services/ premises of group entity to not hinder operations of NBFC	vi. Jurisdiction of the offshore courts to not extend to NBFC operations in India
vii. Risk management practices to be in line with those implemented for unrelated service providers	vii. All original records to be maintained in India

### **5. Outsourcing policy**

An NBFC intending to outsource any financial activities has to put in place a comprehensive outsourcing policy approved by its Board

### **6. Key provisions/ clauses of the outsourcing agreement**

- Outsourced activities to be clearly defined, including service and performance standards
- Accessibility of books, records and information to the NBFC and the RBI
- Continuous monitoring and assessment of the service provider
- Inclusion of a termination clause
- Controls to ensure customer data confidentiality and service providers' liability
- Contingency plans to ensure business continuity and disaster recovery
- Prior approval of the NBFC required in case of use of sub-contractors
- Right to conduct audits/ inspection of the service provider by auditors/ RBI
- Confidentiality of customer information and preservation of documents post termination of the contract

### **7. Monitoring and control of outsourced activities**

- Half-year review of the central record of all material outsourcing to be placed before the Board or Risk Management Committee
- Regular audit of the NBFC to ensure compliance with risk management related to its outsourced activities
- Annual review of financial and operational condition of the service provider
- Audit Committee of the Board to monitor the internal audit system of all outsourced activities

### **8. Reporting obligations of NBFCs**

- Currency transactions reports and suspicious transactions reports to be submitted to the Financial Intelligence Unit (FIU)
- RBI to be notified in case of breach of security and leakage of confidential information by service provider

### **9. Other provisions of the guidelines**

- The Board and senior management of the NBFC are responsible for appropriate oversight and controlling framework in place for outsourced activities and performing their prescribed roles and responsibilities
- The NBFC shall undertake proper due diligence of the service provider, including previous experience, financial soundness, reputation, security, internal control and business continuity management

- The service provider, if not a group company of the NBFC, not to be owned or controlled by any director of the NBFC or his relatives
- Robust grievance redressal mechanism to be in place for services provided by the outsourced agency

Please click [here](#) to access a copy of the RBI Directions.

If your interest lies in a specific area or subject, do advise us so we can send you only the relevant alerts. For any additional information, please reach out to your PwC relationship manager or write in to [\*\*\*pwctr.knowledgemanagement@in.pwc.com\*\*\*](mailto:pwctr.knowledgemanagement@in.pwc.com)

With Best Regards  
PwC TRS Team

## **About PwC**

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 157 countries with more than 223,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at [www.pwc.com](http://www.pwc.com).

In India, PwC has offices in these cities: Ahmedabad, Bengaluru, Chennai, Delhi NCR, Hyderabad, Kolkata, Mumbai and Pune. For more information about PwC India's service offerings, visit [\*\*www.pwc.com/in\*\*](http://www.pwc.com/in)

PwC refers to the PwC International network and/or one or more of its member firms, each of which is a separate, independent and distinct legal entity. Please see [www.pwc.com/structure](http://www.pwc.com/structure) for further details.

©2017 PwC. All rights reserved

**Follow us on [Facebook](#), [LinkedIn](#), [Twitter](#) and [YouTube](#).**

© 2017 PricewaterhouseCoopers Private Limited. All rights reserved. In this document, "PwC" refers to PricewaterhouseCoopers Private Limited (a limited liability company in India having Corporate Identity Number or CIN : U74140WB1983PTC036093), which is a member firm of PricewaterhouseCoopers International Limited (PwCIL), each member firm of which is a separate legal entity

---

***Our Tax & Regulatory Services*** [Direct Tax](#) [Indirect Tax](#) [Transfer Pricing](#) [Regulatory](#) [M & A](#)  
[Tax Controversy and Dispute Resolution](#) [Financial Services](#)

---

**NOTE** : If you wish to unsubscribe receiving communications, please send in a blank email as reply to this mail with subject line "Unsubscribe".

---