



## **Policy on Outsourcing of Services**

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## 1. Introduction

- 1.1. This Policy shall be termed as Outsourcing Policy of Mehta Equities Limited. Outsourcing involves transferring responsibility for carrying out an activity to an outsourcer for an agreed price. The outsourcer provides services to the customer based on a mutually agreed service level, normally defined in a formal contract.
- 1.2. Many commercial benefits have been ascribed to outsourcing, the most common amongst these being:
  - Reducing the organization's costs
  - Greater focus on core business by outsourcing non-core functions
  - Access to world-class skills and resources
- 1.3. SEBI, vide CIRCULAR No. CIR/MIRSD/24/2011 dated December 15, 2011, has put in place a set of guidelines on Outsourcing of Activities by Intermediaries to outline prudent practices in relation to the management of the outsourcing arrangements.
- 1.4. It is observed that the Company involved in outsourcing is exposed to various risks.
- 1.5. 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. Objective

- 2.1. Adherence to this policy will ensure that the operational and financial risks associated with outsourcing arrangements are properly managed. The policy also ensures that outsourcing arrangements are subject to appropriate due diligence, approval and on-going monitoring.

## 3. Definition and Scope

- 3.1. 'Outsourcing' is defined as a company 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, now or in the future.
- 3.2. 'Continuing basis' would include agreements for a limited period.
- 3.3. Outsourcing of activities can reduce Company's risk profile by transferring activities to others with greater expertise and scale to manage the risk associated with specialized business activities.
- 3.4. **The Company may undertake outsourcing of various –**
  1. **Financial services** for recovery of Company dues, /Delivery / collection of cash / drafts, Reconciliation job / Fundamental & Technical Research / SMS facility etc.;
  2. **Non-financial services** for technology related issues and activities related to Company's business, such as, security, housekeeping, movement and archiving of record etc.

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

3.6. Activities not to be outsourced

The Company desirous of outsourcing its activities shall not outsource its core business activities and compliance functions like execution of client's orders, Risk Management Service & Dematerialisation of Physical shares. Compliance function and decision-making functions like determining compliance with KYC norms for opening accounts.

#### **4. 'Material Outsourcing'**

4.1 The essence of outsourcing arrangements lies in their effective implementation. The SEBI has emphasized the need for review of outsourcing arrangement in order to assess the quality of related risk management system, particularly in respect of "Material Outsourcing".

4.2 All those outsourcing arrangements, which if disrupted, have the potential to significantly impact the business operations, reputation or profitability of the Company are considered as "Material".

4.3 Any service outsourced may be treated as "material" where:

- Default on the part of service provider is likely to have impact on the Company's business activities, 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 2 per cent of total operating expenses of the Company, for the ended previous financial year.

#### **5. Outsourcing of services**

5.1 While selecting service provider all relevant guidelines of Criteria for selecting an outsourcer shall be defined and documented, taking into account the:

- company's reputation and history;
- quality of services provided to other customers;
- number and competence of staff and managers;
- financial stability of the company and commercial record;
- retention rates of the company's employees;
- quality assurance and security management standards currently followed by the company (e.g. certified compliance with ISO 9000 and ISO/IEC 27001).

5.2 Outsourcing arrangements shall not diminish Company's ability to fulfill its obligations to customers.

- 5.3 The service provider is not in a position to impede or interfere with the ability of the Company to effectively oversee and manage its activities nor should it impede the Company in carrying out its supervisory functions and objectives.
- 5.4 The service provider firm/entity is not owned or controlled by any director or officer/employee of the Company or their relatives having the same meaning as assigned under Section 2(77) of the Companies Act, 2013.
- 5.5 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.
- 5.6 The service providers' systems are compatible with our own and their standards of performance including in the area of customer service are acceptable.
- 5.7 Independent reviews and market feedback on the service provider shall be taken to supplement Company's own findings.
- 5.8 The Company shall be responsible for the action of the service provider engaged.
- 5.9 The outsourcing arrangement shall not affect the rights of a customer against the Company.
- 5.10 Company shall retain ultimate control of the outsourced activity.
- 5.11 In addition to above, the evaluation of service providers shall involve:
1. Past experience and competence to implement and support the proposed activity over the contracted period;
  2. Financial soundness and ability to service commitments even under adverse conditions;
  3. Business reputation and culture, compliance, complaints and outstanding or potential litigation;
  4. Infrastructure including organization structure.
  5. Security and internal control, audit coverage, reporting and monitoring environment, Business continuity management;
  6. 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.
  7. Ensuring due diligence by service provider of its employees.

## **6. The Outsourcing Agreement**

- 6.1 The Draft Outsourcing Agreement shall be prepared and should be vetted by the concerned Department.

- 6.2. The terms and conditions governing the contract between the Company and the service provider, carefully defined in written agreements.
- 6.3. 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.
- 6.4. The agreement shall also bring out the nature of legal relationship between the parties – i.e. whether agent, principal or otherwise.

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

- 1. The contract should clearly define what activities are going to be outsourced by the Company including appropriate service and performance standards.
- 2. 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.
- 3. A termination clause and minimum periods to execute a termination provision, if deemed necessary, shall be included.
- 4. Contingency plans to ensure business continuity, to be spelt out before allowing outsourcing.
- 5. The contract shall provide for the prior approval/consent by the Company of the use of sub- contractors by the service provider for all or part of an outsourced activity.
- 6. The Company shall ensure that it has the ability to access all books, records and information relevant to the outsourced activity available with the service provider.
- 7. The Company 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.

**7. Risks envisaged in outsourcing**

- 7.1. The following key risks need to be evaluated and discussed before outsourcing any activity: - Risk Mitigation in Outsourcing Arrangements

Risk	Implication	Mitigation Measure
<b>Strategic Risk</b>	The service provider may conduct business on its own behalf, which is inconsistent with the overall strategic goals of the Company.	The service provider should be precluded from conducting business on its own behalf, which is inconsistent with the overall strategic goals of the Company to avoid conflict of interest.

<b>Reputation Risk</b>	Poor service from the service provider, its customer interaction not being inconsistent with the overall standards of the Company.	Service Level Agreement should specify bench marks, in line with standards of the Company, for customer service / customer interaction.
<b>Compliance Risk</b>	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.
<b>Operational Risk</b>	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.
<b>Legal Risk</b>	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.
<b>Exit Strategy Risk</b>	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.	Formulation of Contingency / Business Continuity Plan(s), ongoing training of Company's personnel in outsourced areas, ensuring compatibility of systems etc.
<b>Country Risk</b>	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.
<b>Contractual Risk</b>	Arising from whether or not the Company has the ability to enforce the contract.	Fragility in the contract crippling Company's ability to enforce the same should be identified and removed.

<b>Access Risk</b>	Outsourcing arrangement hinders ability of regulated entity to provide timely data and other information to regulators.	Right to access by the Company and the Regulator should be provided for in the agreement.
<b>Concentration Risk</b>	Due to lack of control of individual Company's over a service provider, more so when overall Companying 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.

## 8. Monitoring and Control - Outsourcing Committee(s)

- 8.1 A separate / centralized cell shall be created at Head Office to co-ordinate amongst all departments, outsourcing activities, while monitoring and control shall vest with the respective department.
- 8.2 An '**Outsourcing Committee**' shall be formed consisting of following:-
- i. Vice President (Accounts)
  - ii. Vice President (Compliance)
  - iii. Vice President (HR)
- 8.3. The senior most Vice President shall be the chairman of the outsourcing committee.
- 8.4. 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 a sub-committee formed at the respective department wishing to outsource such services.
- 8.5. The Committee shall endeavor 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.
- 8.6. The outsourcing of services could be undertaken for the Company as whole or for specific regions, zones of the Company's branch network after its approval at HO level.

## 9. Confidentiality and Security

- 9.1 Public confidence and customer trust in the Company is a prerequisite for the stability and reputation of the Company.
- 9.2. 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.

- 9.3. 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.
- 9.4. 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.
- 9.5. 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 co- mingling of information/documents, records and assets. All such clauses and covenants shall be made part of the outsourcing agreement.
- 9.6. The Company 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.

#### **10. Business Continuity and Management of Disaster Recovery Plan**

- 10.1 The Company 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, 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, which shall be governed through suitable clauses of the Outsourcing Agreement.
- 10.5 In establishing a viable contingency plan, 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.
- 10.6 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.
- 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 Company, can be removed from the possession of the service provider in order to continue its business operations, or deleted, destroyed or rendered unusable.

## **11. Redressal of Grievances related to Outsourced services**

- 11.1. Vice President (Compliance) shall look into the redressal of grievances on account of deficiency in outsourced services. His name and contact number shall be placed on the Company's web site.
- 11.2. Vice President Compliance shall ensure that genuine grievances of customers are redressed promptly without involving delay. It shall be clearly indicated that Company's' Grievance Redressal Machinery will deal with the issues relating to services provided by the outsourced agency.
- 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 Company and the time frame fixed for responding to the complaints shall be placed on the Company's website.
- 11.5. If a complainant does not get satisfactory response from the Company within 30 days from the date of his lodging the complaint, he will have the option to approach the Office of the concerned Companying Ombudsman for redressal of his grievance(s).

## **12. Review**

- 12.1. The annual review of the Outsourcing Policy shall be put-up to the Board for approval, outsourcing committee, after calling for suggestions from different departments.

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