बैंक ऑफ़ इंडिया
Bank of India BOI

POLICY ON OUTSOURCING

HUMAN RESOURCES EPARTMENT

HEAD OFFICE

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BANK OF INDIA B. K. COMPLEX

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1.1 Preamble:

Outsourcing (or contracting out) is often defined as the delegation of non-core operation or jobs from internal production within a business to an external entity (such as a subcontractor) that specializes in that operation. Outsourcing is a business decision that is often made to lower costs or focus on competencies. "Outsourcing" became a popular buzzword in business and management in the mid 1990s.

Outsourcing involves transferring a significant amount of management control and decision-making to the outside supplier. Buying products from another entity is not outsourcing or out-tasking, but merely a vendor relationship. Likewise, buying services from a provider is not necessarily outsourcing or out-tasking. Outsourcing always involves a considerable degree of two-way information exchange, coordination and trust.

Business segments typically outsourced include work areas under Information Technology, Housekeeping services, Security, Financial Inclusion, Card Products , concurrent / statutory audit etc. as detailed below in para 6.2. Outsourcing business is often characterized by expertise not inherent to the core of the client organization. Outsourced financial services include applications processing (loan origination, credit card), document processing, marketing and research, supervision of loans, data processing and back office related activities etc.

1.2 Outsourcing in Banking Industry:

The Bank resorts to Outsourcing for its activities either on continuous basis or for specific jobs / assignment. While doing so, besides the cost consideration, compliance of legal obligations, supervisory requirements and assessment of risk associated with outsourcing, assume prime importance.

Outsourcing may be 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 itself, now or in the future. `Continuing basis' would include agreements for a limited period. Reserve Bank of India has issued guidelines on Outsourcing of Financial Services by banks, facilitating adoption of sound and responsive risk management practices while outsourcing the activities.

2.1 Outsourcing / Off-shoring / Off-shore outsourcing:

Though the terms outsourcing, off-shoring and off-shore outsourcing are used interchangeably in common parlance, it has definite connotation with technical differences. Outsourcing in corporate context, represents an organizational practice that involves the transfer of an organizational function to a third party. When this third party is located in another country the term "off-shore outsourcing" makes more sense. "Off-shoring" in contrast, represents the transfer of an organizational function to another country, regardless of whether the work stays in the corporation or not.

21 APR 2020

3.1 Advantages of outsourcing:

Outsourcing is successful as it increases product quality, lowers costs substantially, or both. Through outsourcing companies today have the ability to develop competitive strategies that will leverage their financial positions in the ever competitive global marketplace –

a) Availment of technological know-how

Outsourcing leads to the ability to utilize the technological know-how of other organizations. This allows businesses to find the specific requirements they need to implement their target objectives.

b) Deployment of core competencies

Outsourcing allows deploying distinctive core competencies of other organizations which lead to long term benefits.

c) Projection of future costs

Organizations that choose to outsource have the ability to determine exact future costs.

d) Reduction in costs

Outsourcing leads to adoption of economical approach for developing / improvising products and services.

e) Supervisory Requirements:

In case any outsourcing activity is arising in consequence of a supervisory direction, such supervisory direction ipso facto will form part of Bank's Outsourcing Policy. That is, the instructions of supervisory requirement will form part of Outsourcing Policy ipso facto.

4.1 Misconception of Outsourcing:

It is widely held that outsourcing at times affects quality of customer service as the work force deployed in outsourcing is not loyal to the parent Institution. The technical support of outsourced tasks is also impaired many a times. The staff of the parent Institution are in a better position to understand the customer needs and their priorities than the work force deployed by outsourced agents. To overcome these criticisms leveled against outsourcing, it is necessary to exercise control at strategic points by devising an appropriate supervisory mechanism over the outsourced activities.

5.1 RBI Guidelines on Outsourcing:

The Reserve Bank of India has issued guidelines on Outsourcing to provide direction / guidance to banks, to adopt sound and responsive risk management practices for effective oversight, due diligence and management of risk arising from outsourcing activities. In regard to managing risks applicable in outsourcing of financial services, RBI's detailed instructions contained in its circulars issued vide the following would be applicable:

- **(i)** DBOD.No.BP.40/21.04.158/2006-07 dated 3rd November 2006
- **(ii)** DBOD.No. BP.64/21.04.158/2007-08 dated 3rd March 2008
- **(iii)** DBOD.No.BP.97/21.04.158/2008-09 dated 11th December 2008

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(iv) DBS.CO.PPD.BC.5/11.01.005/2008-09 dated 22nd April 2009
(v) DBR.No.BP.BC.76/21.04.158/2014-15 dated 11th March 2015
(vi) DCM (Plg) No.2746/10.25.07/2018-19 dated 14th May 2019

The guidelines are applicable to outsourcing arrangements entered into by a bank with a service provider located in India or elsewhere. The service provider may either be a member of the group/conglomerate to which the bank belongs, or an unrelated party.

In terms of these guidelines –

i) Banks would not require prior approval from RBI for outsourcing financial services, whether the service provider is located in India or outside;

ii) In regard to outsourced services relating to credit cards, RBI's detailed instructions contained in its circular on credit card activities vide RBI/2015-16/31 DBR.No.FSD.BC.18/24.01.009/2015-16 dated 1st July 2015 would be applicable.

6.1 Activities that should not be outsourced:

Core Management and business 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 should not be outsourced.

6.2 Activities those are outsourced:

In terms of RBI, any work done by any external agency / firm etc. is an outsourced activity. Business segments typically outsourced include work areas under Information Technology, Housekeeping services, Security, Financial Inclusion, Card Products and professional services in which qualified personnels are required to assist i.e. Chartered Accountants, qualified Engineers etc. Accordingly, activities carried out by Statutory Auditors, Stock Auditors, Concurrent Auditors, Forensic auditors, Valuers, Advocates and Recovery / Enforcement Agents, etc. all such outsourced activities shall be categorized as Critical and Non-Critical.

7.1 Management of Risk:

The various risks involved in Outsourcing are Strategic Risk, Reputation Risk, Compliance Risk, Operational Risk, Legal Risk, Exit Strategy Risk, Counter party Risk, Country Risk, Contractual Risk, Access Risk, Concentration and Systemic Risk. Over and above certain vulnerabilities are linked with the applications of these activities at the operational level.

The departments concerned while engaging vendors / agencies for activities identified to be outsourced, need to identify also various vulnerabilities in advance and to put in place the following to overcome such risks-

i) Policy guidelines on availing outsourcing services;

ii) Adequate mechanisms to ensure effective oversight on the operations;

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iii) Alternate Plan to switch over in case of abrupt discontinuation of services;

iv) Guidelines to claim compensation / penalty for the same, which should be properly defined in the Service Level Agreement (SLA); the bank should, wherever required, take a Performance guarantee and insist on inclusion of penalty clauses in the SLA;

The key risks in outsourcing that need to be evaluated by the bank are: -

(a) Strategic Risk – The service provider may conduct business on its own behalf, which is inconsistent with the overall strategic goals of the bank.

(b) Reputation Risk – Poor service from the service provider, its customer interaction not being consistent with the overall standards of the bank.

(c) Compliance Risk – Privacy, consumer and prudential laws not adequately complied with.

(d) Operational Risk – Arising due to failure of internal processes, people failure, systems failure or from external events, fraud, and inadequate financial capacity to fulfill obligations and/or provide remedies.

(e) Legal Risk – 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.

(f) 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.

(g) Counter party Risk – Due to inappropriate underwriting or credit assessments.

(h) Country Risk – Due to the political, social or legal climate creating added risk.

(i) Contractual risk – arising from whether or not the bank has the ability to enforce the contract.

(j) Concentration and Systemic Risk – Due to lack of control of individual banks over a service provider, over reliance on one service provider and more so when overall banking industry has considerable exposure to one service provider.

The failure of a service provider in providing a specified service, a breach in security / confidentiality, or non-compliance with legal and regulatory requirements by either the service provider or the outsourcing bank can lead to financial losses / reputational risk for the bank and could also lead to systemic risks within the entire

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The departments availing outsourcing activity shall look into the above broadly classified risks and also look into any other incidental risks attributable to it along with risk mitigation views and submit the same to Committee for Operational Risk Management (CORM) for their necessary evaluation and clearance before final award of contract.

8.1 Discretion of activities outsourced:

In terms of RBI guidelines, the discretion to outsource activities will rest with the Board and its committees and further necessary procedure would be followed as under-

- Approving a framework to evaluate the risks and materiality of all existing and prospective outsourcing and the policies that apply to such arrangements;
- Laying down appropriate approvals from authorities for outsourcing depending on risks and materiality;
- Undertaking regular review of outsourcing strategies and arrangements for their continued relevance, safety and soundness and,
- Deciding on business activities of a material nature to be outsourced and approving such arrangements;

However, while doing so, besides adherence to extant instructions on delegation and compliance of tender rules, it should be ensured that outsourcing should not result in loss of internal control or in business conduct / reputation being compromised or weakened. It is to be ensured that outsourcing arrangement neither reduces our liability to the customer nor impedes effective supervision by RBI.

The departments availing the services shall be responsible for undertaking tender process / KYC and due diligence measures / empanelment / assessment and monitoring of performance on a continuous basis as also taking corrective steps in between, from time to time.

Additionally, it is imperative while exercising due diligence in relation to outsourcing, to consider all relevant laws, regulations, guidelines and conditions of approval, licensing or registration.

The authority outsourcing the activity would be responsible for:

- Evaluating the risks and materiality of all existing and prospective outsourcing, based on the framework approved by the Board;
- Ensuring that contingency plans, based on realistic and probable disruptive scenarios are in place and tested;

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बोर्ड बैठक
Board Meeting
21 APR 2020
बोर्ड सचिवालय
BOARD SECRETARIAT
प्रधान कार्यालय / HEAD OFFICE

- Ensuring that there is independent review and audit for compliance with set policies;

- 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*. In case the service provider at a later stage wants to subcontract any part of the services awarded to him/her, specific written request must be made to the Bank and upon written approval from Competent Authority of the Bank only the service provider may go ahead with the sub-contracting proposed by him/her;

- In case sub-contracts are given by outsourcing agent, necessary approval has to be obtained to assess various risks to which the activity is exposed to;

- 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;

9.1 Exercising due diligence:
In considering or renewing an outsourcing arrangement, appropriate due diligence should be performed to assess the capability of the service provider to comply with obligations in the outsourcing agreement. While undertaking due diligence the concerned department shall consider following major aspects-

- qualitative and quantitative, financial, operational, reputational factors,

- ensure whether the service provider's systems are compatible with Bank's own systems and also whether their standards of performance, including in the area of customer service, are acceptable to us,

- evaluate the capability of the service provider, issues relating to undue concentration of outsourcing arrangements with a single service provider,

- obtain independent reviews and market feedback on the service provider to supplement its own findings.

Depending upon the level and types of risks outsourced activities are exposed to, clearance of Risk Management Department is to be obtained along with mapping of the risk and mitigation proposed, besides taking into consideration the following:

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

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बैंक ऑफ इंडिया / BANK OF INDIA Board Meeting 21 APR 2020 HEAD OFFICE

- Financial soundness and ability to service commitment even under adverse conditions;
- Business reputation and culture, compliance with all applicable rules / laws;
- Complaints and outstanding or potential litigation against the service provider;
- Security and internal control, audit coverage, reporting and monitoring environment, Business Continuity management;
- 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;
- Ensuring due diligence of its employees by the service provider;
- Enhanced due diligence must be done under IT outsourcing;
- The vendor engaged for the outsourced activity has to ensure that it has carried out due diligence over the employees deputed / assigned on Bank works and a certificate to this effect to be obtained by the concerned department at HO.
- As per RBI Circular No.DBR.No.BP.BC.76/21.04.158/2014-15 dated 11.03.2015, Banks have been 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.

10.1 Legal Obligations and regulatory and supervisory requirements:
It should be ensured that the ultimate control of the outsourced activity rests with the Bank. The following factors, inter alia, need to be specially looked into:

- Contingency arrangements are in place for critical supplies, services and the outsourcing activity itself;
- Documentation of contingency plan available, if any;
- If contingency plan is not available :

  a) identify alternative third party suppliers
  b) prescribe detailed arrangements
  c) initiate actions and alternative approaches, should the suppliers' contingency arrangements fail or be delayed or the suppliers cease trading;

- It will be obligatory on the part of service provider / outsourcing agent to inform change in management and the key persons monitoring the arrangements to ensure continuity of operations.

- Due diligence in relation to outsourcing, to consider all relevant laws, regulations, guidelines and conditions of approval, licensing or registration should be done;

- Outsourcing arrangements should not affect the rights of a customer against the bank, including the ability of the customer to obtain redressal as applicable under relevant laws;

- Outsourcing, whether the service provider is located in India or abroad should not impede or interfere with the ability of the bank to effectively oversee and manage its activities or impede the Reserve Bank of India in carrying out its Supervisory functions and objectives;

- A robust grievance redressal mechanism should be available, which in no way should be compromised on account of outsourcing;

- The service provider, if it is not a subsidiary of the bank, should not be owned or controlled by any director or officer/employee of the bank or their relatives having the same meaning as assigned under sub section (77) of Section 2 of the Companies Act, 2013;

11.1 Audit and Control:

The Audit Department, while undertaking regular inspection, shall evaluate the selection of service providers, their performance, monitoring mechanism adopted by the concerned department and give suggestions for their improvement during the audit of the respective Departments/Offices. Bank's audit of the outsourced activities will assess the operational and financial status of the vendor to ensure their capability to deliver. Centralized database at a single point for all outsourced activities both domestic and international operations will be created at Head Office IT.

Activities such as stock audit, concurrent audit, statutory audit and services provided by valuers and advocates etc. will be available in the centralized database. The outsourced activities shall be identified as Critical / Non-Critical for monitoring and control purpose.

The Finance Department and I&A Department will have mechanism to ensure that audit firms entrusted with statutory audit do not undertake internal audit during the same period.

11.2 An annual review of the financial / operational condition of the service providers to assess their ability to continue to meet their outsourcing obligation should be audited by Third Party Auditors. Banks are now further advised to 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. This exercise to be complied by Head Office, Inspection & Audit Department.

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12.1 Material outsourcing:
During the onsite Inspection under Risk Based Supervision (RBS), RBI will review the implementation of these guidelines to assess the quality of related risk management systems particularly in respect of *MATERIAL* outsourcing. *Material outsourcing arrangements are those, which if disrupted, have the potential to significantly impact the business operations, reputation or profitability.* Materiality of outsourcing would be based on:

- The level of importance to the bank of the activity being outsourced;
- The potential impact of the outsourcing on the bank on various parameters such as earnings, solvency, liquidity, funding capital and risk profile;
- The likely impact on the bank's reputation and brand value, and ability to achieve its business objectives, strategy and plans, should the service provider fail to perform the service;
- The cost of the outsourcing as a proportion of total operating costs of the bank;
- The aggregate exposure to that particular service provider, in cases where the bank outsources various functions to the same service provider;

It is necessary to notify RBI on Material outsourcing and its variation in existing terms.

13.1 The Outsourcing Agreement:
The terms and conditions governing the contract between the bank and the service provider should be carefully defined in written agreements and vetted by a Bank's legal counsel on their legal effect and enforceability. Every such agreement should address the risks and risk mitigation strategies identified at the risk evaluation and due diligence stages. The agreement should 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. The agreement should also bring out the nature of legal relationship between the parties i.e. whether agent, principal or otherwise.

The basic ingredients of the agreement would be:

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

- Controls should be available to ensure customer data confidentiality and the service provider's liability in case of breach of security and leakage of confidential customer related information.

- Contingency plans should be available to ensure business continuity.

- The contract should provide for the prior approval/consent by the bank of the use of subcontractors by the service provider for all or part of an outsourced activity.

- The contract should 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.

- Outsourcing agreements should 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.

- Outsourcing agreement should also include clauses to recognise the right of the Reserve Bank of India to cause an inspection to be made of a service provider of a bank and its books and accounts by one or more of its officers or employees or other persons.

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

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

- All statutory obligations should be fulfilled by the vendors.

- Non-disclosure clause must be furnished.

The contract agreement with all its parameters and operational details including Annual Maintenance shall be maintained / monitored by the concerned functional department. All Outsourcing Agreements shall be vetted by Legal Department.

14.1 Confidentiality and Security:

While availing outsourcing facility, it should be ensured that:

- Confidentiality and security of customer information should not be jeopardized.

- Only need based access of customer information should be given to authorised staff of service provider.

- There is a system in place to monitor and review the security practices and control process of the service provider on a regular basis.

- 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. In cases, where service provider acts as an outsourcing agent for multiple banks, care should be taken to build strong safeguards so that there is no comingling of information/documents, records and assets.

  RBI should be notified / advised, in the event of any breach of security and leakage of confidential customer related information.

15 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 Bank and will be covered under the purview of these guidelines. Uniform letter to BC/RA etc. after vetting from Head Office, Legal Department be issued by HO / Zonal Office/Branch.

16 Off-shore outsourcing of financial services:

16.1 The engagement of service provider in a foreign country exposes bank to Country Risk – economic, social and political conditions and events in a foreign country that may adversely affect the operation of the bank. Such conditions and events could prevent the service provider from carrying out the terms of its agreement with the bank. To manage the country risk involved in such outsourcing activities, the bank should take into account and closely monitor government policies and political, social, economic & legal conditions in countries where the service provider is based during the risk assessment process on a continuous basis. Further, it should establish sound procedures for dealing with country risk problems. This includes having appropriate contingency and exit strategies. In principle, arrangements should only be entered into with parties operating in jurisdictions generally upholding confidentiality clauses and agreements. The governing law of the arrangement should also be clearly specified.

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

16.3 The outsourcing related to overseas operations of Indian banks would be governed by both, these guidelines and the host country guidelines. *Where there are differences, the more stringent of the two would prevail.* However where there is any conflict, the host country guidelines would prevail.

16.4 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 visit/visits of bank's internal and external auditors.

The overseas branches will ensure that they obtain undertaking from the outsourcing agency that any data/information/documents/images etc. relevant to outsourcing activities can be shared with Head Office and any other regulatory/statutory authority or investigative agency in India or overseas as required, complying with the relevant Host Country regulatory/statutory guidelines in this regard.

Wherever centre specific outsourcing policy is in place, the same shall prevail over this policy.

Further such agencies will also undertake to maintain full confidentiality and will not share data/information//documents/images etc in their possession or in their knowledge or are aware of while undertaking such outsourcing activities assigned to them by the bank.

16.5 The availability of records to management and the RBI will withstand the liquidation of either the off-shore custodian or the bank in India.

16.6 The regulatory authority of the off-shore 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).

16.7 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 all original records continue to be maintained in India.

17. Business Continuity Plan (BCP) of Service Provider

17.1 It should be ensured that the service provider is able to develop and establish a robust framework for documenting, maintaining and testing Business Continuity and recovery procedures. The Bank has to ensure that the service provider periodically tests the Business Continuity and recovery plan and may also consider occasional joint testing and recovery exercises with its service provider.

17.2 In order to mitigate the risk of unexpected termination of the outsourcing agreement or liquidation of the service provider, the bank should retain an appropriate level of control over the 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.

17.3 In establishing a viable contingency plan, the bank should 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.

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

17.5 Business continuity plan for critical activities of the Bank performed by single vendor contractor/ outsourcing provider:

Most of the time Bank has to engage services of single vendor contractor due to unavailability of specific technology with the multiple vendors / contractors. As of now various IT related services are highly technology oriented and need arises to engage single vendor contractor. There is a chance to discontinue of services by single vendor contractor due to certain reasons. Therefore, it is felt necessary to frame the guidelines pertaining to Business Continuity Plan (BCP) in respect of services rendered by single vendor contractor. The guidelines are as under:

(i) All functional Departments shall identify the critical areas of outsourcing activities;

(ii) A single vendor contractor should not discontinue the services without giving proper notice period. It should be categorically mentioned in the service level agreement that the vendor should give minimum 3 months notice period before discontinuation of his services and during the said notice period the vendor shall continue their services to the Bank without disrupting of Banking services.

(iii) Upon receipt of termination of contract notice, the concerned functional department should initiate process of floating fresh RFP for enrollment of new vendor and ensure that the appoint of new vendor will be completed within the expiry notice period for non-disruption of banking services.

(iv) In case floating of RFP process takes time, the functional department may continue the services of existing vendor with approval competent authority till alternate arrangements are made.

(v) Additionally, all functional departments should identify internal Human Resources comprising 4 to 5 staff members group and train them to handle the situations arising out due to discontinuation of services by single vendor contractor. In this connection, the functional departments make arrangements to impart training to above group members on the areas where the single vendor contractor extending their services to the Bank. Therefore, some extent, Bank's internal staff can handle such single vendor outsourced functions till alternate arrangements are made.

21 APR 2020

18. Monitoring and Control of Outsourced Activities

18.1 The bank should have in place a management structure to monitor and control its outsourcing activities. It should ensure that outsourcing agreements with the service provider contain provisions to address their monitoring and control of outsourced activities. Hence, the department outsourcing a particular activity should put in place a system for monitoring and control of that activity and should duly document the same.

18.2 A central record of all material and/or critical outsourcing activities shall be maintained and same shall be readily accessible for review / audit by the concerned departments, senior management and Board. The records should be updated promptly and half yearly reviews should be placed before the Board. The operational procedure for creation / maintenance / audit of centralized database shall be under:-

(i) The outsourced activities, irrespective of being administered at domestic set-up (Head Office / Zonal Office / Branch) or at overseas operations shall be categorized by the respective Department as CRTICAL and NON-CRITICAL and shall inform to IT Department and/or BPR Department.

(ii) Depending on the nature of activity being outsourced, the concerned functional department at HO, shall be responsible to collect and maintain the details of data base and ensure to update the same periodically, preferably on half yearly basis.

(iii) The concerned departments shall submit such data to IT department who shall create / maintain centralised database for outsourced activities for reference / review from time to time.

(iv) The list of all such critical outsourced activities shall also be available at Inspection & Audit Department; accordingly audit of all these activities shall be carried out/ensured on regular basis and report of the same shall be placed by them (I & A) to ACE/ACB.

18.3 Regular audits by either the internal auditors or external auditors of the bank should 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.

18.4 The bank should 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 should highlight any deterioration or breach in performance standards, confidentiality and security, and in business continuity preparedness.

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18.5 In the event of termination of the agreement for any reason, this should be publicized so as to ensure that the customers do not continue to entertain the service provider.

18.6 Outsourcing of any activity by the bank does not diminish its obligations and those of its Board and Senior Management, who have the ultimate responsibility for the outsourced activity. The bank should take steps to ensure that the service provider employs the same high standard of care in performing the services as would be employed by the bank, if the activities were conducted within the bank and not outsourced. The bank should not engage in outsourcing that would result in their internal control, business conduct or reputation being compromised or weakened. However, it may not be necessary for the Bank to have a representative on the Board / Committee of the outsourced agency.

18.7 *The RBI Guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial services by Banks apply mutatis mutandis to subcontracted activities as well.* We reiterate Paragraph 8.1 (Discretion of activities outsourced) of this policy wherein it has been 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, the bank should review the subcontracting arrangements and ensure that these arrangements are compliant with the extant guidelines on outsourcing.

18.8 The bank should ensure that reconciliation of transactions between the bank and the service provider (and/or its subcontractor) is carried out in a timely manner, in cases like outsourcing of cash management, which might involve reconciliation of transactions between the bank, the service provider and its sub-contractors. The bank should place an aging analysis of entries pending reconciliation with outsourced vendors before the Audit Committee of the Board (ACB) and should also make efforts to reduce the old outstanding items therein at the earliest. Each Department should ensure reconciliation of such transactions on regular basis and report to ACB.

18.9 A robust system of internal audit of all outsourced activities should also be put in place and monitored by the ACB of the Bank.

19. (i) the Bank has in place guidelines for *(1) Purchase of goods / execution of different kind of works and (2) Procurement of advisory consulting services:* hence, there is a robust framework in place for managing outsourcing relationships with vendors. The Departments engaging vendors for managing outsourcing activities should enter into Contract and Service Level Agreement with the vendors. All required clauses performance, penalty, reporting, manpower deployment and periodicity should be incorporated in the service level agreement. Activities outsourced to the vendors should be periodically reviewed;
(ii) Vide the above stated guidelines, the bank has in place criteria for selection of vendors. The procedure/guidelines enumerated should strictly be followed by the Departments;

बैंक ऑफ इंडिया BANK OF INDIA प्र. का. औद्योगिक संबंध IND. RELTN. DIVN. H.O. बांद्रा कुर्ला संकुल B. K. COMPLEX

बैंक ऑफ इंडिया / BANK OF INDIA बोर्ड बैठक Board Meeting 21 APR 2020 बोर्ड सचिवालय BOARD SECRETARIAT मुंबई / HEAD OFFICE

(iii) Third Party audit of the outsourced vendors should also be done;

(iv) Departments outsourcing the activities should review vendor performance before implementation of the project/activity. Review of vendor performance should also be done at frequent intervals and should be documented.

20. Redressal of Grievances related to Outsourced services:

a) The bank 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 bank is made known and widely publicised. The designated grievance officer should ensure that genuine grievances of customers are redressed promptly without involving delay. It should be clearly indicated that the bank's grievance redressal machinery will also deal with the issues relating to services provided by the outsourced agency. The designated grievance redressal officer should advise the parent department (who has engaged) about outsourced agency against whom there is receipt of repeated complaints (3 or more) during a month or receipt of complaint of not meeting the grievance redressal norms. The parent department should review the performance of service provider and take appropriate decision including termination and reporting to Indian Banks Association (IBA) (Refer point 22 below).

b) Generally, a time limit of 30 days may 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 are well defined in the bank's Grievance Redressal Policy.

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

21 Reporting of transactions to FIU or other competent authorities

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

22 Centralised List of Outsourced Agents

If a service providers services are terminated by the bank, IBA would have to be informed with reasons for termination. IBA would be maintaining a caution list of such service providers for the entire banking industry for sharing among banks.

23 Outsourcing within a Group / Conglomerate

The risk management practices expected to be adopted by the bank while outsourcing to a related party (i.e. party within the Group/Conglomerate) would be identical to those specified in Para 7.1 - relating to Management of Risk.

24 Self-Assessment of Existing/Proposed Outsourcing Arrangements

All departments are expected to conduct a self-assessment of their existing outsourcing agreements within a time-bound plan and bring them in line with the guidelines prescribed by RBI.

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बैंक ऑफ इंडिया / BANK OF INDIA Board Meeting 21 APR 2020 / HEAD OFFICE

25 (a) Operational Procedure for Maintenance of Centralised Data Base and conducting Audit of Outsourced Activities:

The Business Process Re-Engineering Department vide Memorandum No.BPR:TSA:2019-20:366 dated 19.12.2019 reviewed and updated compendium on Head Office Departments defining department wise roles & responsibilities, policies, systems & processes and ownership of products & processes. As per S.No.13a of said compendium inter-alia state that, henceforth, Head Office IT Department is the owner department for review of outsourcing policy from time to time as details given as hereunder:

(a) Formulation / updation and annual review of outsourcing policy keeping in view the directions of RBI Ministry of Finance, Board of Directors, Audit observations etc. Further, reporting of outsourced activities and its position to the Board on half-yearly basis;

(b) Updation of outsourced activities as per Outsourcing Policy and data to be filled in Stardesk by nodal officer of respective department in co-ordination with IT Department.

(c) The outsourced activity list / centralized data shall be maintained by IT Department in a dedicated portal in Banks Stardesk under centralised data maintenance.

(d) Each Department at HO shall maintain its individual record of different outsourced activities and submit to IT Department for updation in the Star Desk.

(e) The BPR Department at Head Office shall collect outsourcing data from all functional departments on half yearly basis and submit to IT Department for review of outsourcing activities.

25 (b) The Inspection & Audit Department will monitor and cover the enlisted outsourced activities within the scope of internal audit as well as for third party audit. The Inspection & Audit Department will also include the assessment of operational and financial status of the vendor in the scope of audit to ensure its capability to deliver.

26 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 continuous monitoring / supervising of performance should be in place, for which necessary personnel have to be deployed and resources made available by the department concerned.

27. 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 and Audit observations etc.

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BOARD SECRETARIAT
प्रधान कार्यालय / HEAD OFFICE