



POLICY ON OUTSOURCING OF FINANCIAL SERVICES

SML Finance Ltd	Approval Date	Version
Policy on Outsourcing of Financial Services	21 st December, 2024	1.0

1. Preamble

This policy outlines the framework for outsourcing of material activities by SML Finance Ltd (“the Company”), in alignment with the directions issued by the Reserve Bank of India (RBI). The policy aims to ensure sound risk management practices for outsourcing arrangements while safeguarding the interest of customers and maintaining regulatory compliance. Annex XIII on Instructions on Managing Risks and Code of Conduct in Outsourcing of Financial Services by NBFCs under Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 requires NBFCs to have Board Approved outsourcing policy.

2. Definition

'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. Objectives

- To define and govern the outsourcing of material activities.
- To ensure that outsourcing arrangements do not compromise customer service, data confidentiality, regulatory compliance, or business continuity.
- To establish a governance mechanism for the approval, risk evaluation, and monitoring of outsourced activities.

4. Activities that shall not be outsourced

NBFCs which choose to outsource financial services shall, however, not outsource core management functions including Internal Audit, Strategic and Compliance functions and decision-making functions such as determining compliance with KYC norms for opening deposit accounts, according sanction for loans (including retail loans) and management of investment portfolio.

5. 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:

- a) The level of importance and significance of the risk to the Company, of the activity being outsourced.
- b) The potential impact of the outsourcing on the Company, on various parameters such as, earnings, solvency, liquidity, funding capital and risk profile.
- c) The likely impact on the Company's reputation and brand value and ability to achieve its business objectives, strategy and plans, should the Service Provider fail to perform the service.
- d) The cost of the outsourcing as a proportion of total operating costs of the Company.
- e) The aggregate exposure to that particular Service Provider, in case where the Company outsources various functions to the same Service Provider.
- f) The significance of activities outsourced in context of customer service and protection.

6. Risk Arising out of outsourcing

Outsourcing of financial services exposes the Company to number of risks which need to be evaluated and effectively managed and mitigated. The key risk that may arise due to outsourcing are:

- a. Strategic Risk** - The Service Provider may conduct business on its behalf, which is inconsistent with the overall strategic goals of the Company.
- b. Reputation Risk** - Poor service from the Service Provider and its customer interaction may not be consistent with the overall standards expected by the Company.
- c. Compliance Risk** – Privacy, consumer and prudential laws may not be adequately complied with by the Service Provider.
- d. Operation Risk** - Arising due to technology failure, fraud, error, inadequate financial capacity of Service Provider to fulfil obligations and/or provide remedies.
- e. Legal Risk** - Where the Company is subjected to fines, penalties or punitive damages resulting from supervisory actions, as well as private settlements due to omissions and commissions of the Service Provider.
- f. Exit Strategy Risk** - 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.
- g. Counter party Risk** – Due to inappropriate underwriting or credit assessments.

7. Role of the Board and Senior Management

Role of the Board

The Board of the NBFC, or a Committee of the Board to which powers have been delegated shall be responsible inter alia for the following:

- a) Approval of framework to evaluate the risks and materiality of all existing and prospective outsourcing and the policies that apply to such arrangements;
- b) Laying down appropriate authorities for outsourcing depending on risks and materiality;

- c) Setting up suitable administrative framework of senior management for the purpose of these directions;
- d) Undertaking regular reviews of outsourcing strategies and arrangements for their continued relevance and safety and soundness; and
- e) Deciding on business activities of a material nature to be outsourced and approving of such arrangements.

Responsibilities of the Senior Management

- a) Evaluate the risks and materiality of all existing and prospective outsourcing, based on the framework approved by the Board;
- b) Develop and implement sound and prudent outsourcing policies and procedures commensurate with the nature, scope and complexity of the outsourcing activity;
- c) Review periodically the effectiveness of policies and procedures;
- d) Communicate information pertaining to material outsourcing risks in the Board in a timely manner;
- e) Ensure that contingency plans, based on realistic and probable disruptive scenarios, are in place and tested;
- f) Ensure that there is independent review and audit for compliance with set policies; and
- g) Undertake periodic reviews of outsourcing arrangements to identify new material outsourcing risks as they arise.

8. Evaluation of Service Provider

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, operational and reputational factors along with system compatibility.

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

- (i) past experience and competence to implement and support the proposed activity over the contracted period;
- (ii) financial soundness and ability to service commitments even under adverse conditions;
- (iii) business reputation and culture, compliance, complaints and outstanding or potential litigation;
- (iv) security and internal control, audit coverage, reporting and monitoring environment, business continuity management and
- (v) ensuring due diligence by service provider of its employees.

9. Outsourcing Agreement

All outsourcing arrangements shall be executed only by way of a clearly defined and legally binding written agreement with each of the Service Provider and vetted by the Company's Legal counsel on their legal effect and enforceability. Every such agreement shall address the risks and risk mitigation strategies. The agreement shall be sufficiently

flexible to allow the Company to retain an appropriate level of control over the outsourcing and the right to intervene with appropriate measures to meet legal and regulatory obligations. The agreement shall also bring out the nature of legal relationship between the parties - i.e. whether agent, principal or otherwise. Some of the key provisions of the contract shall be the following:

- a) Clearly defines what activities are going to be outsourced, including appropriate service and performance levels;
- b) To ensure that it has the ability to access all books, records and information relevant to the outsourced activity available with the service provider;
- c) It shall provide for continuous monitoring and assessment by the NBFC of the service provider so that any necessary corrective measure can be taken immediately.
- d) A termination clause and minimum period to execute a termination provision, if deemed necessary, shall be included;
- e) 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;
- f) The contract shall provide for the prior approval/consent by the Company of the use of subcontractors by the service provider for all or part of an outsourced activity;
- g) It shall provide the Company with the right to conduct audits on the service provider whether by its internal or external auditors, or by agents appointed to act on its behalf and to obtain copies of any audit or review reports and findings made on the service provider in conjunction with the services performed for the Company.
- h) Outsourcing agreements shall include clauses to allow the Reserve Bank or persons authorised by it to access the Company's documents, records of transactions, and other necessary information given to, stored or processed by the service provider within a reasonable time;
- i) Outsourcing agreement shall also include a clause to recognise the right of the Reserve Bank to cause an inspection to be made of a service provider of the Company and its books and account by one or more of its officers or employees or other persons;
- j) the outsourcing agreement shall also provide that confidentiality of customer's information shall be maintained even after the contract expires or gets terminated;
- k) the Company shall have necessary provisions to ensure that the service provider preserves documents as required by law and take suitable steps to ensure that its interests are protected in this regard even post termination of the services.

10. Confidentiality and Security

- a) Public confidence and customer trust in the Company is a prerequisite for the stability and reputation of the Company. Hence, the Company shall seek to ensure the preservation and protection of the security and confidentiality of customer information in the custody or possession of the service provider.
- b) 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.

- c) The Company shall ensure that the service provider is able to isolate and clearly identify the Company's customer information, documents, records and assets to protect the confidentiality of the information. In instances, where service provider acts as an outsourcing agent for multiple NBFCs, care shall be taken to build strong safeguards so that there is no comingling of information/ documents, records and assets.
- d) The Company shall review and monitor the security practices and control processes of the service provider on a regular basis and require the service provider to disclose security breaches.
- e) The Company shall immediately notify the Reserve Bank in the event of any breach of security and leakage of confidential customer related information. In these eventualities, the Company would be liable to its customers for any damages.

11. Responsibilities of Direct Sales Agents (DSA)/Direct Marketing Agents (DMA)/Recovery Agents

a. The Company shall ensure that DSA/DMA/Recovery Agents are properly trained to handle their responsibilities with care and sensitivity, particularly aspects such as soliciting customers, hours of calling, privacy of customer information and conveying the correct terms and conditions of the products on offer etc.

b. Recovery Agent shall adhere to extant instructions on Fair Practices Code of the Company as also their own code for collection of dues and repossession of security, it is essential that the Recovery Agents refrain from action that could damage the integrity and reputation of the Company and that they observe strict customer confidentiality.

c. The Company and their agents shall not resort to intimidation or harassment of any kind, either verbal or physical, against any person in their debt collection efforts, including acts intended to humiliate publicly or intrude the privacy of the debtors' family members, referees and friends, making threatening and anonymous calls or making false and misleading representations.

12. Business Continuity and Management of Disaster Recovery Plan

The service provider agrees to the following:

- Develop and establish a robust framework for documenting, maintaining and testing business continuity and recovery procedures. The service provider should periodically test the Business Continuity and Recovery Plan and allow the Company to test it too.
- The service providers should 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, 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.

13. Monitoring and Control of Outsourced Activity

- a) The Company shall be entitled to at least on annual basis, review the financial and operational condition of the service provider to assess its ability to continue to meet its outsourcing obligations. Such due diligence reviews, which can be based on all available information about the service provider shall highlight any deterioration or breach in performance standards, confidentiality and security, and in business continuity preparedness.
- b) The Company, in the event of termination of the outsourcing agreement for any reason in cases where the service provider deals with the customers, shall publicize by displaying at a prominent place in all the offices, posting it on the website, and informing the customers of the same so as to ensure that the customers do not continue to deal with the service provider.
- c) An ageing analysis of entries pending reconciliation with outsourced vendors shall be placed before the Audit Committee of the Board (ACB) and NBFCs shall make efforts to reduce the old outstanding items therein at the earliest.
- d) The Company shall carry out internal audit of all the outsourced services and same shall be put in place and monitored by the Audit Committee.

14. Redress of Grievances related to Outsourced Services

The customers can lodge their complaint to the below mentioned mail id and contact number:

Customer Service/Complaints contact no: +91 8943399999

Registered E-mail Id for complaints: info@smlfinance.com

If the matter required further escalation, complaints can be escalated to:

Nodal Officer

Tony K F

SML Finance Ltd

SML Finance Limited, Bethany Complex, Thrissur road, Kunnamkulam

Email: smlkkm@gmail.com

Phone No: 9349852141

15. Reporting of transactions to FIU or other competent authorities

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

16. Review:

The policy shall be reviewed at regular intervals or as and when considered necessary by the management/ Board of Directors of the Company.

Details of present collecting agents appointed by SML Finance:

1. Sri Ram Associates