ORIX Leasing & Financial Services India Ltd.

Outsourcing Policy

V.2

(1) Preamble:

The Reserve Bank of India (RBI) vide its Notification No. DNBR.PD.CC.No.090/03.10.001/2017-18 dated November 09, 2017 has issued directions on 'Managing Risk and Code of Conduct in Outsourcing Financial Services by Non-Banking Financial Companies' ("RBI Directions") with a view to adopt sound and responsive risk management practices for effective oversight, due diligence and management of risk arising from outsourcing activities, in particular, financial services and protect the interest of the Customers of the Company.

The RBI Directions are not applicable to technology-related issues and activities 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

Keeping the above intent of the RBI Directions, this Outsourcing Policy (the Policy) has been adopted suitably superseding the existing Policy.

(2) Definitions:

(a) '**Ancillary Services**' in relation to Outsourcing shall mean appointment of (i) Direct Selling Agent (DSA) or Direct Marketing Agent (DMA) (ii) Recovery Agents which may be associated, directly or indirectly, with Financial Services

(b) "**Collection Staff**" shall mean employees (on roll and fixed term) of the Company who are involved in collection of dues or repossession of security on behalf of the Company.

(c) '**Core Management Function**' in relation to the Company shall mean and include Legal, Finance & Accounts, Treasury, Operations, Internal Audit, Compliance functions, Human Resource and Information Technology.

(d) '**Customer'** shall mean Customer of various businesses of the Company in relation to which Outsourcing of Financial Services or Ancillary Services is done but does not include TPA.

(e) '**Risk Assessment**' in relation to Third Party Agent (TPA) shall mean evaluation or risk assessment of all available information about TPA basis the criteria specified in the Policy:

(f) '**Financial Service**' in relation to the Company shall mean applications processing (loan origination), document processing, marketing and research, supervision of loans, data processing, and back office related activities etc

(g) '**Material Outsourcing**' means Outsourcing of Financial Services, Ancillary Services by the Company and Core Management Function, which if disrupted, will have the potential to significantly impact the business operations, reputation or profitability.

(h) '**Outsourcing**' in relation to:

   (i) business or operation activities of the Company shall mean Company's use of a TPA (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 (i.e. agreement or contract for a longer period or limited period except adhoc/one-time) that would normally be undertaken by the Company itself, now or in the future; and

   (ii) Core Management Function shall mean Company's use of services of its holding Company i.e. ORIX Auto Infrastructure Services Limited (OAIS)

(i) "**Recovery Agents**" shall mean TPA appointed by the Company and authorised for collection of dues or repossession of secured assets (funded/hypothecated/mortgage with the Company) on behalf of the Company.

(j) '**Third Party Agent ("TPA") or Service Provider**' in relation to this Policy shall mean an individual or organization that are appointed to in relation to Material Outsourcing

(k) '**TPA Protocol'** shall mean the document, as approved by the Board of Directors of the Company, governing various aspects of on-boarding TPA

The terms used herein this Policy and not defined shall have meaning as specified in the RBI Directions.

(3) Scope of the Policy:

The Policy incorporates, amongst others:

(a) Assessment criteria for Material Outsourcing;
(b) Condition of Outsourcing
(c) Risk arising out of Outsourcing and management of these risks;
(d) Risk Assessment of TPA and OAIS;
(e) Clauses to be incorporated in the agreement for Outsourcing;
(f) Approval Authority;
(g) Roles and Responsibility
(h) Responsibilities to be shouldered by Dealers/DSA/ DMA/ Recovery Agents
(i) Outsourcing within a Group/ Conglomerate
(j) Collection Staff/Recovery Agents
(k) Code of conduct for DSA/DMA, Collection Staff and Recovery Agents

(4) Outsourcing:

The Company may appoint TPA for Material Outsourcing by following this Policy as well as guidelines or processes as specified in TPA Protocol and also adhering to KYC and AML Policy of the Company. The Company shall not cause Outsourcing of Core Management Function to any TPA except to Company's Group/Associate/Holding Company

(5) Assessment criteria of Material Outsourcing:

Materiality of Outsourcing and selection of TPA shall be assessed based on following criteria:

(a) The level of importance to the Company;

(b) The potential impact 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, if TPA fails to perform the service;

(d) The cost as a proportion of total operating costs of the Company;

(e) The aggregate exposure to that particular TPA; and

(f) The significance, in context of Customer service and protection.

(g) Ability to maintain appropriate controls and meet regulatory requirements, particularly if the TPA fail to perform over a given period of time.

(h) Degree of difficulty and time required to find an alternative TPA or bring the business activity "in-house"

(i) Foreign political, legal, economic and social conditions or any additional risk factors in the case of overseas TPA

(6) Conditions of Outsourcing:

The following conditions shall have to be ensured while Material Outsourcing:

(a) Consider all relevant laws, regulations, guidelines and conditions of approval, licensing or registration etc.

(b) Outsourcing arrangements shall not affect the rights of the Customer against the Company, including the ability of the Customer to obtain redress as applicable under relevant laws. In cases where the Customers are required to deal with the TPA in the process of dealing with the Company, suitable clauses shall have to be incorporated, wherever applicable, in the documents to be executed with TPA.

(c) The Outsourcing shall not diminish or compromise Company's obligations towards the Customer or result into weakening or compromising of Company's internal control, business conduct or reputation or operations of the Company. The ultimate control shall have to be retained by the Company.

(d) Outsourcing arrangements shall neither diminish the Company's ability to fulfil its obligations to Customer and RBI nor impede effective supervision by the RBI.

(e) TPA shall not have a right to impede or interfere with the ability of the Company to effectively oversee and manage its activities The right of the Company to access all books, records and information available with the TPA should remain protected.

(f) The security practices and control processes of the TPA wherever feasible shall be reviewed and monitored during Due Diligence of TPA and the obligation shall have to be placed on TPA to disclose security breaches. Terminate the contract with TPA if there are breaches or threatened breaches with regard to TPA compromising in this aspect

(g) The Company shall be immediately notifying RBI in the event of any breach of security and leakage of confidential Customer related information.

(h) the TPA shall respond to the grievances within the time frame fixed by the Company in its Fair Practice Code available on the website of the Company at ORIX - OLFS: Corporate Governance (orixindia.com).

(i) TPA shall not have any conflict of interest with the Company and its Directors/ Key Managerial Person / Employees of the Company. A disclosure to this effect shall have to be obtained at the time of onboarding TPA and its renewal of contract

(j) TPA shall have to qualify criteria of KYC and AML Policy and TPA Protocol of the Company

(7) Risk arising out of Outsourcing:

Outsourcing may expose the Company to some risks which need to be evaluated and effectively managed & mitigated. The following risks in Material Outsourcing shall have to be evaluated and guarded:

(a) **Strategic Risk** – Whether the TPA conducts business on its own behalf, inconsistent with the overall strategic goals of the Company?

(b) **Reputation Risk** – Whether service from TPA or its interaction with Customers of the Company are in consistent with the overall standards of the Company?

(c) **Compliance Risk** – Whether privacy, consumer and prudential laws are adequately complied with by TPA?

(d) **Operational Risk** – Whether operations of the company are affected due to technology failure, fraud, error, inadequate financial capacity to fulfil obligations and/or to provide remedies?

(e) **Legal Risk** – Whether TPA is exposed to any fines, penalties or punitive damages resulting from supervisory actions?

(f) **Exit Strategy Risk**: Whether exit clause in the contract with TPA is expensive? or whether the Company is over-reliant on single TPA which makes difficult for the Company to exit from contract despite TPA is failing on other parameters?

(g) **Counter Party Risk**: Whether DSA/DMA/Recovery Agents has compromised in seeking appropriate documents which are relevant for the Company for evaluation of credit worthiness of the Customers?

(h) **Contractual Risk** – Whether contract with TPA executed is unenforceable in the eyes of law?

(i) **Confidentiality Risk** – Whether TPA has required safeguard or preventive measure to protect confidential information of Customers of the Company?

(j) **Sanction Risk**: Whether TPA is appearing in sanction list published by UNSC ?

(k) **Concentration and Systemic Risk** – Whether TPA has failed to provide the desired services covered by the terms of agreement or any non-compliance of any legal / regulatory requirements is observed which can lead to reputational or financial loss for the company?

(8) Risk Assessment of TPA:

Perceived risks as stipulated above are required to be managed through Risk Assessment of TPA. The Risk Assessment shall be carried out annually of TPA appointed for Material Outsourcing.

(a) Specified below is Risk Assessment Criteria of TPA and Methodology:

Sr. No	**Criteria**	**Risk Scoring (H=High Risk; M=Medium Risk; L=Low Risk)**	**Methodology**
1	Business Criticality (Value to ORIX)	H = 3; M = 2; L = 1	If Criticality to ORIX is H, Higher Value is assigned to H and if it is L, Lower Value is Assigned
2	TPA Dependency	H = 3; M = 2; L = 1	Since Vendor Dependency is assigned more value
3	Annual Business Referred/ Done	H = 3; M = 2; L = 1	H=>20 Mn; M=>10 Mn <20; L=<10 mn
4	Complaint Against TPA	H=3; L=1	H=Yes; L= No
5	PEP	H=3; L=1	H=Exposed; L= Not Exposed
6	Ability to Provide Operational Support	H = 3; M = 2; L = 1	H=Bad; M=Average; L=Good
7	Safeguard of Confidential Information (Adequate / Non-Adequate)	H=3; L=1	H=Non-Adequate; L=Adequate
8	Level of Experience	H = 3; M = 2; L = 1	H=0-3 Years, M= 3 to 5 Years; L=5+ Years
9	Service Level	H = 3; M =2; L = 1	H=Bad; M=Average; L=Good

(b) Risk Categorization: Basis the Criteria and Methodology as stated above, TPA which / whose Risk Score ranges between 9 to 14 will be classified as Low Risk; TPA which /whose Risk Score ranges between 15 to 20 will be classified as Medium Risk and TPA which / whose Risk Score is above 21 will be classified as High Risk. This exercise will be done manually until system is designed to avoid manual intervention.

(c) The result of Risk Assessment shall have to be placed before the RMC. Any TPA Risk Score of whom/which is above 21 or is categorized as High Risk TPA, following documents shall have to be obtained:

(i) Financial Statement to ascertain its financial strength to provide support.
(ii) Business Continuity Plan document
(iii) Further Due Diligence as per the format as enclosed as Annexure 2
(iv) Revised KYC documents

(9) Outsourcing Agreement:

The terms and conditions governing the contract between the Company and the TPA for Material Outsourcing shall have to be approved by Company's Legal Department. Contract with the TPA for Material Outsourcing should:

(a) Clearly define the activities that are being outsourced, including appropriate service and performance standards.

(b) Incorporate provisions:

(i) With regard to contingency or business continuity plans to be adhered to by TPA

(ii) to gain access by the Company as well as the RBI of all books, records and information of TPA relevant to the Outsourcing.

(iii) for monitoring and assessment of the TPA by the Company so that any necessary corrective measures are taken immediately.

(iv) conditions upon occurrence of which the Company can termination the contract; minimum periods to execute a termination provision, if deemed necessary.

(v) keeping Customer data confidential, period upto which such data shall be kept confidential and liability of TPA in case of breach of security and leakage of confidential Customer related information.

(vi) cover provision with regard to taking prior consent of the Company before sub-contracting or engaging sub-contractor for sub delegating any part of Outsourcing

(vii) provide the Company with the right to conduct audits on the TPA whether by its internal or external auditors, or by the RBI or any other regulator or by agents appointed to act on its behalf and to obtain copies of any audit or review reports and findings.

(viii) allowing the RBI or persons authorised by it to access the TPA's documents, records of transactions, and other necessary information given to, stored or processed by TPA, within a reasonable time, with regard to Outsourcing.

(ix) or the preservation of documents and data by the TPA in accordance with the legal/regulatory obligation and take suitable steps to ensure that the Company's interests are protected.

(x) Segregation of Company's Customer data with data of TPA and its customer

(10) Approval Authority:

Outsourcing of Financial Services can be done based on prior approval of the Managing Director and local representative Director of the Company whereas Outsourcing of Ancillary Services can be done based on approval of respective Business Heads/ Functional Heads of the Company.

(11) Monitoring & control of Outsourcing:

(a) <u>Termination</u>: In the event of termination / expiry of the Outsourcing agreement for any reason in cases where the TPA deals with the Customers, the same shall have to be publicized by displaying at a prominent place in the branch, posting it on the website, and informing the Customers, as may be applicable, so as to ensure that the Customers do not continue to deal with the TPA.

(b) Reconciliation of Transactions: Certain activities, like Outsourcing of cash management, if carried out by the Company, may involve reconciliation of transactions between the Company and the TPA. In such cases, reconciliation of transactions between the Company and the TPA shall have to be carried out in a timely manner. An ageing analysis of entries pending reconciliation with TPA shall have to be placed before the Audit Committee and efforts shall be made by the Company to reduce the old outstanding items therein at the earliest.

(c) A record of all Material Outsourcing that is readily accessible for review by the Risk Management Committee and senior management shall be maintained. The records shall have to be updated promptly and half yearly reviews shall be placed before the Risk Management Committee

(12) Roles and Responsibility:

(a) Senior Management Team (Business Head – Lease and Loan Against Property, Head-Collection and Supervisor of CV Business:

(i) Ensuring assessment criteria for Material Outsourcing as specified under clause 5 above.

(ii) Ensuring obtaining of Code of conduct from DSA/DMA, Collection Staff and Recovery Agents as mentioned under Clause 15.

(iii) Undertaking periodic review of outsourcing arrangements to identify new Material Outsourcing risks as they arise.

(iv) Ensuring that there is an independent review and audit for compliance with the Policy.

(v) Evaluating and guarding the risk arising out of Material Outsourcing as specified under Clause 7 above.

(vi) To carry out Risk Assessment of TPA annually (once in a Financial Year) to whom Material Outsourcing is done basis the information received from VMU.

(vii) Provide report of Risk Assessment to Compliance and Secretarial Department for onward submission to Risk Management Committee.

(viii) Maintain database of Agreement executed with TPA and provide details of the TPA, whose services/agreement are terminated, to Corporate Secretarial Department

(ix) Keep proper record of materiality assessments, periodic risk reviews and any other related activity to provide clear evidence of the steps have been taken to assess the risks associated with each outsourcing arrangement.

(x) Obtain from TPA documents as listed in para 8(c) above, if any TPA is categorized as High Risk and submit it to VMU for verification and updation

(b) Vendor Management Unit (VMU):

(i) Onboarding of TPA: Onboard TPA by adhering to process as laid down in this Policy and the Third Party Agent Protocol of the Company.

(ii) Ensure that no payments are made unless valid contracts are executed.

(iii) Provide such information or records as required by Compliance Department or Business Head or Functional Heads.

(iv) Provide the database of TPA which are subject to Risk Assessment annually to Senior Management Team and update the result of such Risk Assessment in the system.

(v) Maintain and provide records of all Material Outsourcing and provide the same to Compliance and Secretarial Department for onward submission to senior management and RMC

(c) Operations:

(i) Reconciliation of transactions [as envisaged under clause 11(b)] between the Company and the TPA to be carried out in a timely manner.

(ii) Preparing of ageing analysis of entries pending reconciliation with TPA on half yearly basis and submit it to Corporate Secretarial Department for placing before the Audit Committee

(d) Compliance:

(i) Implementing the Policy and procedures commensurate with the nature, scope and complexity of the Outsourcing (Compliance Department).

(ii) Reviewing periodically the effectiveness of the Policy and procedures (Compliance and Corporate Secretarial department)

(iii) Ensure that documents as specified in para 8(c) is obtained if any TPA is categorized as High Risk and the same is submitted to VMU for further processing.

(iv) Submit to senior management record of all Material Outsourcing on half yearly basis and Corporate Secretarial Department for reporting to RMC.

(e) Chief Financial Officer (Key Managerial Person)

Shall at least on an annual basis, review the appropriateness of reliance on OAIS by assessing its ability to continue to meet its outsourcing obligations under this Policy and submit the result to Corporate Secretarial Department for reporting to RMC

(f) Corporate Secretarial department:

(i) Notifying RBI of any breach of security and leakage of confidential Customer-related information by TPA for Material Outsourcing.

(ii) Ensure uploading of TPA, whose services are terminated by the Company or whose agreements are expired and not renewed, on the website of the Company.

(g) <u>Internal Audit:</u>

Ensure that processes as laid down in Policy are complied with; assess the adequacy of the risk management practices adopted in overseeing and managing the outsourcing arrangement and provide suggestions for improvements._

(h) **<u>Legal</u>**:

Reviewing and drafting of contracts with TPA with regard to Material Outsourcing and ensuring conditions mentioned under clause 9 above are incorporated in the contract with the TPA.

(i) <u>Information Technology:</u>

Reviewing and monitoring of security practices and control processes of the TPA and provide report to Corporate Secretarial Department

(j) **<u>Risk Management Committee</u>**:

(i) Approving the Policy and carrying out any amendments, from time to time.

(ii) Laying down appropriate approval authority structure for Outsourcing depending on risks and materiality.

(iii) Decide Outsourcing of Material Financial Services or Ancillary Services to be covered by the Policy.

(iv) Review Due Diligence Report of TPA covered under this Policy.

(13) Responsibilities to be shouldered by Dealers/DSA/ DMA/ Recovery Agents:

The Company shall have to ensure that the DSA/DMA/Recovery Agents are well informed of their responsibilities, particularly aspects like soliciting Customers, hours of calling, privacy of Customer information and conveying the correct terms and conditions of the products on offer etc. The Company shall advise the DSA/DMA/Recovery Agent that they are required to adhere to Fair Practice Code of the Company as available on the website of the Company at <u>ORIX - OLFS: Corporate Governance (orixindia.com)</u>.

(14) Outsourcing within a Group/ Conglomerate:

In case of Outsourcing of Core Management Function by the Company to its Group / Affiliates company then the Company shall have to ensure that such transactions are at arms' length, all requisite approvals of Audit Committee of the Company as well as that of Group / Affiliates Company are in place and proper contract/service level agreement is executed demarcating sharing resources i.e. infrastructure facilities, personnel, back-office and service, hardware and software applications, centralize back-office functions etc.

The risks mentioned under clause 7 above shall also be evaluated and guarded for Outsourcing of Core Management Function by the Company to its Group / Affiliates company.

(15) Collection Staff/Recovery Agents:

The Company shall ensure that the Collection Staff and the Recovery Agents employed by the Company do not resort to intimidation or harassment of any kind, either verbal or physical, against any person in their debt collection efforts including but not limited to:

(a) humiliating publicly or intrude upon the privacy of the debtors' family members, referees and friends.

(b) sending inappropriate messages either on mobile or through social media.

(c) threatening and/ or making anonymous calls.

(d) persistently calling the borrower and/ or calling the borrower before 8:00 a.m. and after 7:00 p.m. for recovery of overdue loans.

(e) making false and misleading representations.

(f) use of muscle power for recovery of Loans.

(g) maintain strict Customer confidentiality.

(16) Code of conduct for DSA/DMA, Collection Staff and Recovery Agents:

(a) The Company has adopted Standard Code of Conduct for TPA as part of TPA Protocol adopted by the Board of Directors of the Company. The said Code of conduct shall be obtained as undertaking from DSA/DMA/Recovery Agents at the time of their onboarding.

(b) In addition to the above, a 'Code of Conduct for Collection Staff and Recovery Agents', enclosed as Annexure-1 to this Policy shall also be obtained as undertaking from Recovery Agents and Collection Staff of the Company.

(17) Review / Amendment of the Policy:

This Policy shall be reviewed by Corporate Secretary and Compliance Team, jointly, on an annual basis, and amendment as and when considered necessary shall be approved by the Risk Management Committee of the Company.

The Risk Management Committee reserves its right to amend or modify this Guideline in whole or in part, at any time, without assigning any reason whatsoever. However, no such amendment or modification shall be binding unless the same is notified in writing.

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Annexure-1

Code of Conduct for Collection Staff and Recovery Agents

The Code of Conduct for Collection Staff and Recovery Agents of the ORIX Leasing & Financial Services India Ltd. ("OLFS"/"Company") is built around dignity and respect to Customers. All Customers (including Customers who are late in paying or in default) must be treated with respect, dignity, courtesy and fairness in debt collection efforts. The Company believes in following fair practices as laid down in its Fair Practice Code and Outsourcing Policy on collection of dues and thereby fostering Customer confidence and long-term relationship.

It is imperative that all persons involved in collection related activities follow this Code. All Collection Staff and Collection Agents must agree to abide by this Code of Conduct.

This Code applies to all employees of the Company / agents of Company that may be retained to collect Customer debts on behalf of OLFS.

Responsibilities of the Collection Staff/ Recovery Agents:

All employees of the Company / agents of company appointed / authorized by the Company, would follow the guidelines set out below:

(1) Not resort to intimidation or harassment of any kind, either verbal or physical, against any person in their debt collection efforts including but not limited to;

  (a) humiliating publicly or intrude upon the privacy of the debtors' family members, referees and friends;

  (b) sending inappropriate messages either on mobile or through social media;

  (c) threatening and/ or making anonymous calls;

  (d) persistently calling the borrower and/ or calling the borrower before 8:00 a.m. and after 7:00 p.m. for recovery of overdue loans;

  (e) making false and misleading representations; and

  (f) use of muscle power for recovery of Loans.

  (g) maintain strict Customer confidentiality.

(2) Adhere to Fair Practice Code of the Company as available on the website of the Company at ORIX - OLFS: Corporate Governance (orixindia.com).

(3) Recovery Agents outsourced by the Company, apart from adhering to the Fair Practice Code of the Company available on its website, adhere to their own code also for collection of dues and repossession of security.

(4) refrain from action that could damage the integrity and reputation of the Company and observe strict Customer confidentiality.

(5) No interference to be caused in the affairs of the Customer except for what is provided in the Loan Agreement.

Annexure 2

Due Diligence Review Form			
Responsible Department/ Business Unit:			
Contract Identification			
Business Activity outsourced:			
Annual Business Done:			
Criteria basis which Risk Classification is increased to High Risk			
Service Provider name:			
Service Provider address:			
Contract date:		Contract expiry date:	
Purpose and operation of Outsourcing Arrangement (why it is in place & what information is exchanged, what activities are undertaken)			
Service Provider Performance/Risk			
Question		**Response**	
1. Period covered in this review 2. Is the Service Provider delivering the service as agreed?			
3. Are there any signs that the service level is falling off?			
4. Are there any material problems encountered by the service provider?			
5. Is there any violation of standard of conduct during the service period noted including but not limited to, verified complaints related to conduct received, unethical behavior noted and verified, etc.?			
6. Is the Contract needed to be renegotiated and renewed?			

7. (Is the Service Provider financially viable?	
8. Is there any scope for improvement on service provider's contingency plan identified?	
9. Potential Legal risk (if any)?	
10. Comments: (use separate sheet if necessary)	
Next review scheduled:	
Name of Reviewing Officer	
Date and Signature	
Name of Department Head Date and Signature	
Completion/filing Instructions: Use additional sheets if necessary.	

Adoption / Modification History

Date of creation	Date of Adoption/ Revision	Version	Department Owner	Description	Approved by
20.08.2020	04.11.2020	V.1	Secretarial Department	Adoption of Initial draft	Board of Directors
15.03.2023	16.03.2023	V.2	Secretarial and Compliance Department	Adoption of revised Policy	Risk Management Committee