AVASARA FINANCE LIMITED

OUTSOURCING POLICY

Approved by	Board of Directors
Policy Owner	Risk Management Department
Version	2/2025-26

1. BACKGROUND, INTRODUCTION, PURPOSE

The Reserve Bank of India ("**RBI**"), under the **Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 dated October 19, 2023** ("**RBI Directions**") to bring the outsourced activities within regulatory purview to:

(a) protect the interest of the customers of Non-Banking Financial Companies ("**NBFCs**").

(b) to ensure that the concerned NBFC, and the RBI have access to all relevant books, records and information available with service provider.

The underlying principles of the RBI Directions are that an NBFC should ensure that outsourcing arrangements neither diminish its ability to fulfil its obligations to customers as well the RBI nor impede effective supervision by the RBI.

The RBI Directions are applicable to material outsourcing arrangements. As per the RBI Directions, material outsourcing arrangements are those which, if disrupted, have the potential to significantly impact the business operations, reputation, profitability or customer service. Further, the RBI Directions are not applicable to technology-related issues and other non- financial activities, such as usage of courier, catering of staff, housekeeping and janitorial services, security of the premises, record management etc.

In view of the above, **Avasara Finance Limited** ("**Company**" or "**AFL**"), being a Non – Deposit Taking Non – Systemically Important Non-Banking Financial Company ("**NBFC**"), is required to put in place a comprehensive outsourcing policy, approved by its Board. Accordingly, pursuant to the RBI Outsourcing Directions, the Company has formulated this **Outsourcing Policy** ("**Policy**").

The current version of the Outsourcing Policy shall be effective from the date of its approval by the Board and supersede all previous versions of the Policy.

2. APPLICABILITY

As per the RBI Directions, **'Outsourcing'** has been defined as an 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.

The Policy shall be applicable to material outsourcing arrangements which may be entered into by the Company with a service provider located in India or elsewhere. For the purpose of this Policy, material outsourcing arrangements are those which, if disrupted, have the potential to significantly impact the business operations, reputation, profitability or customer service of the Company. Accordingly, the materiality of outsourcing would be based on the following:

(a) Level of importance to the Company of the activity being outsourced as well as the significance of the risk posed by the same.

(b) Potential impact of the outsourcing on the Company on various parameters such as earnings, solvency, liquidity, funding capital and risk profile.

(c) Likely impact on the Company's reputation & brand value, and ability to achieve its business objectives/ strategy/ plans, should the service provider fail to perform the service.

(d) Cost of the outsourcing as a proportion of total operating costs of the Company.

(e) Aggregate exposure to a particular service provider, in cases where the Company outsources various functions to the same service provider.

(f) Significance of activities outsourced in context of customer service and protection.

3. APPROVAL AND REVIEW OF THE POLICY

The Policy shall be reviewed at least once in a year or as and when required by the applicable rules and regulations. After approval of this Policy by the Board of Directors of the Company (“**Board**”), any amendment to this Policy may be approved by the Risk Management Committee of the Company (“**RMC**”). However, the Policy may be placed before the Board based on recommendation of the RMC.

4. POLICY STANDARDS

4.1 Responsibility of the Company for actions of Service Providers

In accordance with the RBI Directions, the Company will be responsible for the actions of service provider and the confidentiality of information pertaining to the customers that is available with the service provider.

In cases where the customers are required to deal with the service providers, the Company shall incorporate a clause in the relative product literature/ brochures, etc., stating that they may use the services of agents in sales/ marketing etc. of the products. The Company will also broadly indicate role of agents.

4.2 Role of the Board of Directors (“Board”)

The Board shall be responsible, *inter alia*, for the following:

(a) Approval of a 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 approval authorities for outsourcing depending on risks and materiality.

(c) Setting up suitable administrative framework of senior management for the purpose of these directions; *and*

(d) Undertaking regular review of outsourcing strategies and arrangements for their continued relevance, and safety and soundness.

The service provider, if not a group company of the Company, <u>should not be owned or controlled by any Director or their relatives.</u>

4.3 Role of the Risk Management Committee (“RMC”)

(a) Evaluating the risks and materiality of all existing and prospective outsourcing, based on the framework approved by the Board.

(b) Developing and implementing sound and prudent outsourcing policies and procedures commensurate with the nature, scope and complexity of the outsourcing activity.

(c) Reviewing periodically the effectiveness of policies and procedures.

(d) Communicating information pertaining to material outsourcing risks to the Board in a timely manner.

(e) Ensuring that contingency plans, based on realistic and probable disruptive scenarios, are in place and tested.

(f) Undertaking periodic review of outsourcing arrangements to identify new material outsourcing risks as they arise.

4.4 Role of the Head of respective department

(a) Communicating information pertaining to material outsourcing risks to the RMC/ Senior Management in a timely manner.

(b) Ensuring that there is independent review and audit for compliance with set policies.

(c) Deciding on business activities of a material nature to be outsourced and approving such arrangements.

4.5 Activities that should not be outsourced

The Company will not outsource core management functions like Internal Audit, Strategy, Compliance etc. and decision-making functions such as determining compliance with KYC norms, approval for loans/ investments and management of investment portfolio. However, these functions may be outsourced within the Company's group subject to compliance with specific conditions prescribed by the RBI Directions. Further, while internal audit function itself is a management process, the Company may engage a firm as Internal Auditors on contract subject to specific directions of the RBI on Internal Audit as applicable from time to time.

4.6 Activities that can be outsourced

The Company may outsource certain financial services which are not core activities, including the following:

(a) Lead sourcing activity
(b) Application Processing
(c) Collection of data, Field verifications etc.
(d) Call Centre
(e) Collection/ Recovery, follow-up activities and repossession
(f) Operations back-office
(g) Scrutiny of documents
(h) Documents quality check
(i) Storage of documents
(j) Legal/ Litigation and Compliance Advisory (but decision making, and implementation roles shall not be outsourced)
(k) Legal and Technical verification
(l) Marketing and research

The above list is indicative and any other activities which are within the definition of outsourcing and are not prohibited by the RBI may also be outsourced by the Company.

4.7 Evaluation of the Risks

Outsourcing of financial services may expose the Company to several risks which need to be evaluated and effectively managed/ mitigated. The following key risks that may arise due to outsourcing shall be evaluated and managed/ mitigated properly:

(a) Strategic Risk
(b) Reputation Risk
(c) Compliance Risk
(d) Operational Risk
(e) Legal Risk

(f) Exit Strategy Risk
(g) Counterparty Risk
(h) Country Risk
(i) Contractual Risk
(j) Confidentiality Risk
(k) Concentration and Systemic Risk

4.8 Evaluating the Capability of the Service Provider

In considering or renewing an outsourcing arrangement, appropriate due diligence should be performed to assess the capability of the service provider to comply with its duties/ obligations. Due diligence shall take into consideration qualitative and quantitative, financial, operational and reputational factors (including customer service aspects).

The above key risk should also be assessed. Where possible, the Company should obtain independent reviews and market feedback on the service provider. Due diligence by the Company should include following factors:

(a) past experience and competence to implement and support the proposed activity over the contracted period;

(b) financial soundness and ability to service commitments even under adverse conditions;

(c) business reputation and culture, compliance, complaints and outstanding or potential litigation;

(d) security and internal control, audit coverage, reporting and monitoring environment, business continuity management; and

(e) ensuring due diligence by service provider of its employees.

4.9 The Outsourcing Agreement

The Outsourcing Agreement should include the following key provisions:

(a) the activities that are going to be outsourced including service and performance standards.

(b) the Company's right to access all books, records and information relevant to the outsourced activity available with the service provider.

(c) the Company's 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.

(d) continuous monitoring and assessment by the Company of the service provider so that any necessary corrective measure can be taken immediately.

(e) a termination clause and minimum period to execute a termination provision.

(f) controls to ensure customer data confidentiality and service providers' liability in case of breach of security and leakage of confidential customer related information.

(g) obligation of the service provider to disclose security breaches.

(h) contingency plans to ensure business continuity.

(i) requirement of prior approval from/ consent by the Company of the use of subcontractors by the service provider for all or part of an outsourced activity.

(j) clauses to allow the RBI or persons authorized 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.

(k) right of the RBI to cause an inspection of the service provider and its books and account by one or more of its officers or employees or other persons.

(l) provisions to address their monitoring and control of outsourced activities.

(m) right of the Company to intervene with appropriate measures to continue its business operations and its services to the customers.

(n) access to customer information by staff of the service provider on 'need to know' basis.

(o) responsibility of the service provider 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 companies, the service provider to build strong safeguards so that there is no comingling of information / documents, records and assets.

(p) service provider to maintain confidentiality of customer's information even after the contract expires or gets terminated.

(q) service provider to preserve documents as required by law and take suitable steps to ensure that the Company’s interests are protected in this regard even post termination of the services.

4.10 Confidentiality and Security

(a) The Company will review and monitor the security practices and control processes of the service provider periodically and require the service provider to disclose security breaches.

(b) The Company will notify RBI, with the stipulated timelines, in the event of any breach of security and leakage of confidential customer related information.

4.11 Responsibilities of Direct Sales Agents (DSAs)/ Direct Marketing Agents (DMAs)/ Recovery Agents, if engaged by the Company

(a) The Company, if it engages the DSA/ DMA/ Recovery Agents, will ensure that they are properly trained to handle their responsibilities with care and sensitivity.

(b) If DSA/ DMA/ Recovery Agents are engaged by the Company then, with the approval of the RMC, it shall put in place Code of Conduct for compliance by its agents as under:

- **(i)** Code of Conduct for DSAs/ DMAs.
- **(ii)** Code of Conduct for Recovery Agents.

(c) DSAs/ DMAs/ Recovery Agents will be required to observe strict customer confidentiality.

(d) The Company and its agents will 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.

4.12 Business Continuity and Management of Disaster Recovery Plan

(a) The service providers shall be required to develop and establish adequately robust framework for documenting, maintaining and testing business continuity & recovery procedures.

(b) In order to mitigate the risk of unexpected termination of the outsourcing agreement or liquidation of the service provider, the Company will retain an appropriate level of control over its outsourcing and the right to intervene with appropriate measures to continue its business operations and its services to the customers.

(c) In establishing a viable contingency plan, the Company will 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.

4.13 Monitoring and Control of Outsourced Activities

(a) Proper record of all material outsourcing will be maintained. The records shall be updated promptly, and half yearly reviews shall be placed before the Risk Management Committee.

(b) The Internal Audit of the outsourcing activities will be carried-out and key audit findings shall be reported to the Audit Committee.

Further, regular audits by either the internal auditors or external auditors should assess the adequacy of the risk management practices adopted in overseeing and managing the outsourcing arrangement, the Company's compliance with its risk management framework and the requirements of this policy.

(c) The Company will, 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 shall highlight any deterioration or breach in performance standards, confidentiality and security, and in business continuity preparedness.

(d) In the event of termination of the outsourcing agreement for any reason, where the service provider deals with the customers, the same will be publicized by displaying at the branch, posting it on the website, and notifying the customers, so as to ensure that the customers do not continue to deal with the service provider.

(e) Certain cases, like outsourcing of cash management, might involve reconciliation of transactions between the Company, the service provider and its sub-contractors. In such cases, the Company will ensure that reconciliation of transactions between the Company and the service provider (and/ or its sub-contractor), are carried out in a timely manner.

Level 1: Grievance Redressal cum Nodal Officer(s)

Borrowers are requested to address all their grievances at the first instance to the Grievance Redressal Officer. The contact details of the Grievance Redressal Officer are:

Name: Mr. Raj Surendra Jain

Designation: Finance Controller

Address: Bandra Hill View Chs, (3rd Floor), 85, Hill Road Opp. Yoko Sizzlers, Bandra (W), Mumbai City Maharashtra 400050

Email: raj.j@avasarafinance.com

The Grievance Redressal Officer may be reached through the e-mail address above. The Grievance Redressal Officer shall endeavor to resolve the grievance within a period of 21 working days from the date of receipt of a grievance.

Level 2: Compliance cum Principal Officer

If the Borrower does not receive a response from the Grievance Redressal cum Nodal Officer within 21 days of making a representation, or if the Borrower is not satisfied with the response received from the Grievance Redressal cum Nodal Officer, the Borrower may write to the Compliance cum Principal Officer at the e-mail address below. The contact details are provided below.

Name: Vinu Mammen

Designation: COO

Address: Bandra Hill View Chs, (3rd Floor), 85, Hill Road Opp. Yoko Sizzlers, Bandra (W), Mumbai City Maharashtra 400050

Email: vinu.mammen@avasarfinance.com

Level 3: Escalation to the Officer-in-charge DNBS, RBI

If any Customer is not satisfied with the resolution provided by the Grievance Redressal Officer or in case the grievance is not redressed within a period of one month from the date of its first submission, then the customer can write to:

Officer-in-Charge Reserve Bank of India, Department of Supervision (NBFC) Reserve Bank of India, Central Office (Headquarters): Centre I, World Trade Centre, Cuffe Parade, Colaba, Mumbai - 400 005., India

*** Currently based on the size and operations of the Company the Reserve Bank – Integrated Ombudsman Scheme, 2021 does not apply to the Company. The company will modify the said policy as and when the same is applicable to the Company.*

4.14 Outsourcing within a Group/ Conglomerate

(a) The Company may have back-office and service arrangements/ agreements with its group entities e.g. sharing of premises, legal and other professional services, hardware and software applications, centralize back-office functions, outsourcing certain financial services to other group entities, etc.

However, before entering into such arrangements with group entities, the Company shall have service level agreements/ arrangements with its group entities which shall also cover demarcation of sharing resources i.e. premises, personnel, etc. Moreover, the customers shall be informed specifically about the entity which is actually offering the product/ service, wherever there are multiple group entities involved or any cross selling observed.

(b) While entering into such arrangements, the Company will ensure that such arrangements:

(i) are appropriately documented in written agreements with details like scope of services, charges for the services and maintaining confidentiality of the customer's data;

(ii) do not lead to any confusion to the customers on whose products/ services they are availing by clear physical demarcation of the space where the activities of the Company and those of its other group entities are undertaken;

(iii) do not compromise the ability to identify and manage risk of the Company on a stand-alone basis;

(iv) do not prevent the RBI from being able to obtain information required for the supervision of the Company or pertaining to the group as a whole; and

(v) incorporate a clause under the written agreements that there is a clear obligation for any service provider to comply with directions given by the RBI in relation to the activities of the Company.

(c) The Company will ensure that their ability to carry out their operations in a sound fashion would not be affected if premises or other services (such as IT systems, support staff) provided by the group entities become unavailable.

(d) If the premises of the Company are shared with the group entities for the purpose of cross-selling, the Company will take measures to ensure that its identification is distinctly visible and clear to the customers. The marketing brochure used by the group entity and any communication by its staff / agent in the Company's premises will mention nature of arrangement of the entity with the Company so that the customers are clear on the seller of the product.

(e) The Company will not publish any advertisement or enter into any agreement stating or suggesting or giving tacit impression that they are in any way responsible for the obligations of its group entities.

(f) The risk management practices while outsourcing to a related party (i.e. party within the Group / Conglomerate) will be as applicable to any 3rd party.

4.15 Off-shore outsourcing of Financial Services

The Company, currently, does not carry offshore outsourcing of financial services. In case, such outsourcing is carried-out in future by the Company in future, it will ensure adherence with the applicable regulatory requirements.

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