

**Nalwa Sons Investments Limited**

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**Outsourcing Policy**

<b>Document Control Sheet</b>	
<b>Document Name</b>	Outsourcing Policy
<b>Name of Company</b>	Nalwa Sons Investments Limited
<b>Policy Authorization by</b>	Board of Directors
<b>Review of the policy</b>	Once in three years
<b>Board Revised date</b>	November 30, 2023

## **1. Introduction**

Nalwa Sons Investments Limited (hereinafter referred to as “NSIL” or “the Company”) is a Non-Banking Financial Company (NBFC) registered with the Reserve Bank of India (RBI). In accordance with the Master Direction- Non-Banking Financial Company – Scale Based Regulations - (Reserve Bank) Directions, 2023 (hereinafter referred to as “the RBI Directions”) issued by the RBI, Company categorized as Middle Layer NBFC.

As part of its operational strategy, NSIL may engage third-party service providers, including group entities, to perform specific financial and non-financial activities on its behalf. These outsourcing arrangements are intended to enhance operational efficiency, provide access to specialized expertise, and enable the Company to focus on its core business objectives.

Outsourced activities may include, but are not limited to, loan origination and application processing, documentation and verification services, supervision of loan portfolios, data entry and data processing, IT and software support, KYC verification, back-office operations, human resource services and marketing & analytical services.

This Policy aims to lay down a structured framework for evaluating, approving, monitoring, and reviewing all outsourcing arrangements to ensure they are conducted in a manner that is prudent, transparent, and aligned with regulatory standards and internal governance practices.

## **2. Objectives and Regulatory Framework**

The primary objective of this Policy is to ensure that outsourcing arrangements entered into by NSIL are conducted in a safe, sound and compliant manner that does not impair the Company’s ability to fulfil its obligations to customers, regulators or other stakeholders.

In line with the RBI’s Guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by NBFCs, this Policy seeks to:

- Establish a structured decision-making process for determining which activities may be outsourced and under what conditions;
- Define minimum criteria for the selection and onboarding of service providers, including group companies;
- Ensure that outsourced activities are governed by written agreements that clearly delineate roles, responsibilities, risk ownership, performance metrics, and exit conditions;
- Preserve the Company’s right—and that of the RBI—to access data, books, records, and systems related to outsourced functions at all times;
- Ensure that outsourcing does not dilute the Company’s control over critical business functions, internal controls, data confidentiality, or regulatory accountability;
- Mandate ongoing oversight, risk monitoring, and periodic review of outsourced activities to ensure alignment with the Company’s business objectives, risk appetite, and compliance framework.

NSIL shall not outsource any activity that could adversely affect its governance standards, compromise customer interests, or impair the Company’s ability to conduct effective supervision and regulatory reporting. The service provider—whether internal or external—shall be required to adhere to the same level of confidentiality, integrity, diligence, and operational controls as NSIL would exercise if performing the activity internally.

## **3. RBI Directions**

The Reserve Bank of India (RBI) has issued directions on managing risk and the code of conduct in outsourcing of financial services by NBFC’s. These directions apply to material outsourcing

arrangements entered into by a NBFC with a service provider located in India. The service provider may either be a member of the group or an unrelated third party.

#### **4. Activities that can be outsourced**

NSIL may outsource specific operational and support functions to third-party service providers or group entities, provided such arrangements do not affect regulatory compliance, customer interest, or internal control.

- **Financial Services Support:** Activities such as loan application processing, KYC verification, customer acquisition, recovery support, and tele-calling may be outsourced under defined controls.
- **IT Services:** Non-core IT functions including software development, infrastructure support, data hosting, cybersecurity testing, and system maintenance may be outsourced to qualified vendors.
- **HR and Administrative Services:** Recruitment processing, payroll handling, background checks and training support may be outsourced along with non-strategic administrative functions.
- **Facilities and Auxiliary Services:** Housekeeping, office space, office maintenance, transport, courier, catering, and similar support services may also be outsourced as per operational needs.

#### **5. Roles & Responsibility**

##### **i. Roles & Responsibility of Board of Directors:**

- Approving a framework to evaluate the risk and materiality of all existing and prospective outsourcing activities and the policies that apply such arrangements;
- Deciding on business activities of a material nature to be outsourced;
- Setting up suitable administrative framework of senior management for the purpose of these directions;
- Regular review of outsourcing strategies and arrangements for their continued relevance, safety and soundness;
- Shall take the responsibilities for the actions of their service provider
- Shall take the responsibility to maintain the confidentiality of information pertaining to the customer that is available with the service provider;
- Shall ensure that the service provider, if not a group company of the NSIL, shall not be owned or controlled by any director of the company or their relatives. These terms have the same meaning as assigned under Companies Act, 2013.

##### **ii. Roles & Responsibility of Senior Management & Team:**

- Evaluating the risk and materiality of all existing and prospective outsourcing based on the frame work approved by the Board;
- Developing and implementing sound and prudent outsourcing policies and procedures commensurate with the nature, scope and complexity of outsourcing activity;
- Reviewing periodically the effectiveness of policies and procedures; communication information pertaining to material outsourcing risk to the board in timely manner
- Ensuring that the contingency plans, based on realistic and probable disruptive scenarios of service provider, are in place and tested;
- Ensuring that there is independent review and audit for compliances with set policies;
- Undertaking periodic review of outsourcing arrangements to identify new material outsourcing risks as they rise and shall ensure to have robust grievance redress mechanism, which in no way shall be compromised on account of outsourcing.

## **6. Risk in Outsourcing**

The key risk in outsourcing are Strategic Risk, Compliance Risk, Operational Risk, Legal Risk, Exit Strategy Risk, Counter Party Risk, Country Risk, Concentration and Systemic Risk. The failure of a service provider in providing specified service a breach in security/ confidentiality, or non-compliance with legal and regulatory requirements by the service provider can lead to financial losses or loss reputation of the company.

The Company shall evaluate and calculate and guard against the following risks in outsourcing;

- **Strategic Risk** - Where the service provider conducts business on its own behalf, inconsistent with the overall strategic goals of the company.
- **Compliance Risk** - Where privacy, consumer and prudential laws are not adequately complied with by the service provider.
- **Operational Risk** - Arising out of technology failure, fraud, error, inadequate financial capacity to fulfil obligations and/ or to provide remedies.
- **Legal Risk** - Where the NSIL may be subjected to fines, penalties, or punitive damages resulting from supervisory actions.
- **Reputation Risk** - Where the service provided is poor and customer interaction is not consistent with overall standards expected of the company.
- **Exit Strategy Risk** - Where the company may over-reliant on one firm, the loss of relevant skills in the company itself preventing it from bringing the activity back in-house and contracts that made speedy exits prohibitively expensive.
- **Counter party Risk** - Where there is inappropriate underwriting or credit assessments.
- **Contractual Risk** - Where the NSIL may not have the ability to enforce the contract.
- **Concentration and Systemic Risk** - Where the overall industry is considerable exposure to one service provider and hence the company may lack control over the service provider.
- **Country Risk** - Due to political, social (or) legal, climate creating additional risk.

## **7. Evaluation & Selection of Service Provider**

In considering or renewing an outsourcing arrangement, 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 and operational factors.

NSIL shall consider whether the service provider's systems are compatible with its own and also whether their standards of performance including in the area of customer service are acceptable to it. They shall also consider, issue relating to undue concentration of outsourcing arrangements with a single service provider. Where ever possible, the company shall obtain independent reviews and market feedback on the service provider to supplement its own findings.

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

- Past experience and competence to implement and support the proposed activity over the contraction period;
- Financial soundness and ability to service commitments even under adverse conditions;
- Business reputation and culture, compliance, complaint and pending/ potential litigations;
- Security and internal control, audit coverage, reporting and monitoring environment, business continuity management and ensuring due diligence by service provider of its employees.

Further if due diligence seems all right then the selection should be done as follows:

- Service provider's resources and capabilities, including financial soundness, to perform the outsourcing work within the timelines fixed;
- Compatibility of the practices and system of the service provider with the NSIL's requirements and objectives.
- Market feedback of the prospective service provider's business reputation and track record of their service rendered in the process;
- Level of concentration of the outsourced arrangements with a single party;

## **8. Outsourcing Agreement**

NSIL shall ensure the terms and conditions governing the contract with the service are carefully defined in written Agreements and vetted by the Company's legal team on their legal effect and enforceability. Ever such agreement shall address the risk and risk mitigation strategies. The agreement shall be sufficiently flexible to allow the NSIL 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 relationships between the parties.

NSIL shall consider some of the key provisions while entering into contract with the service provider which are mentioned below:

- The contract shall clearly define the activities are going to be outsourced including appropriate service and performance standards;
- The business cross-charge, in cases where outsourcing is carried out to a group company, shall be determined based on clearly defined parameters such as time spent, resources utilized, area or infrastructure occupied, and any other relevant cost drivers, in accordance with arm's length principles.
- Ensure the NSIL has the ability to access all books, records and information relevant to the outsourced activity available with the service provider;
- The contract shall provide for continues monitoring and assessment of the NSIL of the service provider so that any necessary corrective measure can be taken immediately;
- Termination clause and minimum period to execute a termination provision, if deemed necessary shall be included;
- 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;
- The contract shall provide for the prior approval / consent by the NSIL of the use of subcontractors by the service provider for all or part of an outsourced activity; and findings made on the service provider in conjunction with the services performed for the NSIL;
- Outsourcing agreements shall include clause to allow the Reserve Bank of India or persons authorized by it to access the NSIL's documents, record of transactions, and other necessary information given to, stored or processed by the service provider within a reasonable time;
- Outsourcing agreement can also include a clause to recognize the right of the Reserve Bank to cause an inspection to be made by a service provider of the company and its books and account by one or more of its officers or employees or other persons;
- The outsourcing agreement shall also provide that confidentiality of customer's information shall be maintained even after the contract expires or get terminated and the NSIL 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

Further care shall be taken to ensure that the outsourcing agreement:

- Clearly defines what activities are going to be outsourced, including appropriate service and performance levels

- Provides for mutual rights, obligations and responsibilities of the company and the service Provider, including indemnity of the parties;
- Provides of the liability of the service provider to the company for unsatisfactory performance/ other breach of the contract;
- Specifies the responsibilities of the service provider with respect to the IT security and contingency plans, insurance cover, business continuity and disaster recovery plans, force majeure class, etc.

## **9. Confidential and Security**

Public confidence and customer trust are prerequisites for the stability and reputations of the company. Hence the NSIL shall seek to ensure the preservation and protection of the security and confidentiality of the customer information in the custody or possession of the service provider.

NSIL shall ensure that:

- 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.
- The service provider is able to isolate and clearly identify the NSIL's customer information documents, record and assets to protect the confidentiality of the information.

In instances, where service provider act as outsourcing agent for multiple NBFCs, care shall be taken to build strong safeguard so that there is no commingling of information / documents records and assets.

- Regular review and monitoring of the security practices and control process of the service provider and require the service provider to disclose security breaches.
- Immediate notifying to RBI in the event of any breach of security and leakage of confidential customer related information.

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

The company shall require its service providers to develop and establish a robust framework for documenting, maintaining and testing business continuity and recovery procedures. NSIL shall ensure that the service provider periodically tests the business continuity and recovery plan and may also consider occasional joint testing and recovery exercise with its service provider.

In order to mitigate the risk of unexpected termination of the outsourcing agreement or liquidation of the service provider, the company shall retain appropriate measure to continue its business operations in such case without incurring prohibitive expenses and without any break in the operations of the company and its service to the customers.

In establishing a viable contingency plan, NSIL shall consider the availability of alternative service providers or the possibility of bringing the outsourced activity back in-house in an emergency and the costs, time and resources that would be involved.

NSIL will make sure that the service providers are able to 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, assets of the NSIL, can be removed from the possession of the service provider in order continue its business operations, or deleted, destroyed or rendered unusable.

## **11. Monitoring and Control of Outsourced Activities**

A central record of all material outsourcing that is readily accessible for review by the board and senior management of the company shall be maintained. The record shall be updated promptly and on half yearly basis reviews shall be placed before the Board or Risk Management Committee.

Regular audits would be done by either the internal auditors or external auditors of the company to assess the adequacy of the risk management practices adopted in overseeing and managing the outsourcing arrangement.

NSIL shall 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 business continuity preparedness.

In the event of termination of the outsourcing agreement for any reason in case where the service provider deals with the customers, the same shall be publicized by displaying at a prominent place in all the offices, posting it on the website, and informing the customers so as to ensure that the customers do not continue to deal with the service provider.

A robust system of internal audit of all outsourced activities shall also be put in place and monitored by the company.

## **12. Redress of Grievances related outsourced Services**

- i. NBFCs shall constitute Grievance Redressal Machinery as contained in RBI's circular on Grievance Redressal Mechanism vide DNBS. CC. PD. No. 320/03. 10. 01/2012-13 dated February 18, 2013. At the operation level, all NBFCs shall display the name and contact details (Telephone/ Mobile nos. as also email address) of the Grievance Redressal Officer prominently at their branches/ places where business is transacted. The designated officer shall ensure that genuine grievances of customers are redressed promptly without involving delay. It shall be clearly indicated that NBFC's Grievance Redressal Machinery will also deal with the issue relating to services provided by the outsourced agency.
- ii. Generally, a time limit of 30 days may be given to the customers for preparing their complaints/ grievances. The grievance redressal procedure of the NBFC and the time frame fixed for responding to the complaints shall be placed on the NBFC's website.

## **13. Outsourcing within the group**

In a group structure, the company may have back-office and service arrangements/ agreements with group entities e.g. sharing of premises, legal and other professional services to other group entities etc.

Before entering into such arrangements with group entities the company shall have an arrangement with their group entities which shall also cover demarcation of sharing resources i.e. premises, personnel, etc.

## **14. Periodic Review**

All outsourcing arrangements and this Policy shall be subject to a comprehensive review at least once every three years, or earlier if required due to regulatory changes, business needs, or risk assessments. The review shall evaluate the performance of service providers, assess associated risks, and ensure continued alignment with RBI guidelines and internal control standards.

