

# OUTSOURCING POLICY

**KUSHAL FINNOVATION CAPITAL PRIVATE LIMITED**

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**1. Preamble:**

Kushal Finnovation Capital Private Limited (hereinafter referred to as “**the Company**”) is a Non-Banking Finance Company (NBFC-ND-NSI) registered with RBI and holding COR no. N-02.00352. The Company has developed its Outsourcing Policy (hereinafter referred to as the “**Policy**”) and is in compliance with the Master Directions on Managing Risks and Code of Conduct in Outsourcing of Financial Services by NBFCs vide its Notification No. DNBR.PD.CC.No.090/03.10.001/201718 dated 9<sup>th</sup> November 2017. The directions are applicable to material outsourcing arrangements which may be entered into by the Company with a Service Provider located in India or elsewhere. The Service Provider may either be a member of the group/ conglomerate of the Company.

These directions are concerned with managing risks in outsourcing of financial services and are not applicable to technology-related issues and activities which are not related to financial services.

**2. Outsourcing:**

Outsourcing may be defined as a Company’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 Company itself, now or in the future. 'Continuing basis would include agreements for a limited period.

**3. Activities that shall not be outsourced:**

The Company shall not outsource the following services certain core management functions including strategic and compliance functions:

- Internal Audit
- decision-making functions like determining compliance with KYC norms for opening deposit accounts,
- sanction for loans (including retail loans) and
- management of investment portfolio.

**4. Material Outsourcing:**

For the purpose of these directions, material outsourcing arrangements are those which, if disrupted, have the potential to significantly impact the business operations, reputation, profitability or customer service.

Materiality of outsourcing would be based on various factors as mentioned below:

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

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

- A. Roles & Responsibilities of the Board of Directors:** The Board shall approve the framework to assess risks and materiality of outsourcing activities and related policies. The Board shall decide on and approve outsourcing of material business activities. The Board shall regularly review outsourcing strategies for safety and relevance, takes responsibility for the Service Provider's actions, and shall ensure the confidentiality of customer information handled by the Service Provider.
- B. Roles & Responsibilities of Senior Management:** Senior management includes the Chief Compliance and Risk Officer, Chief Business Officer and Chief Financial Officer. Senior Management shall assess the risks of outsourcing activities based on the Board's framework and shall develop, implement and review the Policy. Senior Management shall communicate material risks to the Board and shall ensure contingency plans for Service Provider disruptions and conduct independent audits for compliance. Senior management shall regularly review outsourcing arrangements for new risks and ensure a robust grievance redress mechanism is maintained, unaffected by outsourcing.

## 6. **Risks In Outsourcing:**

The key risks in outsourcing are Strategic Risk, Compliance Risk, Operational Risk, Legal Risk, Exit Strategy Risk, Counterparty Risk, Country Risk, Contractual Risk, Concentration and Systemic Risk. 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 the Service Provider can lead to financial losses or loss of reputation for the Company.

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

- a. **Strategic Risk** – Where the Service Provider conducts business on its own behalf, inconsistent with the overall strategic goals of the Company.
- b. **Compliance Risk** – Where privacy, consumer and prudential laws are not adequately complied with by the Service Provider.
- c. **Operational Risk** - Arising out of technology failure, fraud, error, inadequate financial capacity to fulfil obligations and/ or to provide remedies.
- d. **Legal Risk** – Where the Company may be subjected to fines, penalties, or punitive damages resulting from supervisory actions.
- e. **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 make speedy exits prohibitively expensive.
- f. **Counter party Risk** – Where there is inappropriate underwriting or credit assessments.
- g. **Contractual Risk** – Where the Company may not have the ability to enforce the contract.
- h. **Concentration and Systemic Risk** – Where the overall industry has considerable exposure to one Service Provider and hence the Company may lack control over the Service Provider.

The Company shall ensure sound and responsive risk management practices for effective oversight, due diligence and management of risks arising from the outsourced activities to avoid systemic risks and financial losses or loss of reputation for the Company in the event of failure of service provider to provide a specified service, breach in security/ confidentiality, or non-compliance with legal and regulatory requirements by the service provider.

The respective departments of the Company 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 Chief Compliance and Risk Officer for their necessary evaluation and clearance before final award of contract.

**7. Evaluation & selection of Service Provider:**

The Finance, Business, Risk and Compliance team initially evaluates outsourcing arrangement. The discretion for outsourcing activities will rest with the Chief Compliance and Risk Officer who will be responsible for the following:

- 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. ensuring that there is independent review and audit for compliance with set policies; and
- g. 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. Any proposal by service provided to subcontract, at a later stage, shall be after accessing various risks to which the activity is exposed to and with prior written approval of the Risk Management Committee of the Company.

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

**8. Outsourcing Agreement:**

The Company shall ensure the terms and conditions governing the contract with the service provider are carefully defined in written agreements and vetted by the Company's legal team 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.

The Company will consider some of the key provisions while entering into any agreement with the service provider, which are mentioned below:

- a. The agreement shall clearly define what activities are going to be outsourced including appropriate service and performance standards;
- b. Ensure that Company has the ability to access all books, records and information relevant to the outsourced activity available with the service provider;
- c. The agreement shall provide for continuous monitoring and assessment by the Company of the service provider so that any necessary corrective measure can be taken immediately;
- d. 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. There must be contingency plans to ensure business continuity;
- g. The agreement 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;
- h. 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;
- i. Outsourcing agreements shall include clauses to allow the Reserve Bank of India 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;
- j. Outsourcing agreement shall also include a clause to recognize 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;
- k. The outsourcing agreement shall also provide that confidentiality of customer's information shall be maintained even after the agreement expires or gets terminated and 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.

#### **9. Confidentiality and Security:**

Public confidence and customer trust are prerequisites 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.

In this regard, the Company shall ensure that:

- a. 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.
- b. 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.
- c. The Company shall be entitled to regular review and monitoring of the security practices and control processes of the Service Provider and the Service Provider shall disclose security breaches to the Company.
- d. The Company shall immediately notify to the Company and 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 will require service providers to establish a strong framework for documenting, maintaining, and testing business continuity and recovery procedures. The Company will ensure periodic testing of these plans and may conduct joint exercises. To mitigate risks from outsourcing termination or service provider liquidation, the Company will retain control and intervention rights to ensure uninterrupted operations without excessive costs. Contingency plans will include alternative providers or in-house transitions, considering feasibility and resources. Service providers must also ensure Company's data, records, and assets can be isolated, retrieved, or securely disposed of when necessary.

**11. Monitoring And Control of Outsourced Activities**

The Company shall maintain a management structure to monitor and control outsourcing activities, ensuring agreements include such provisions. A central record of material outsourcing will be kept, regularly updated, and reviewed semi-annually by the Board. Internal or external audits will assess risk management adequacy. The Company will annually review the service provider's financial and operational condition to ensure compliance. Any deterioration in performance, security, or continuity will be addressed. If an outsourcing agreement is terminated, customers will be informed through the website, and direct communication to prevent continued engagement.

**12. Review:**

- a) This Policy is subject to review by the Board of Directors of the Company as and when deemed necessary. The Board of Directors of the Company shall annually review the functioning of Outsourcing Policy
- b) This Policy shall be subject to the applicable laws including but not limited to the rules, regulations, guidelines, directives and instructions issued by the RBI, from time to time and shall supersede the earlier version of the Policy. Any change/amendment in applicable laws with regard to Outsourcing shall be deemed to be incorporated in this Policy by reference and this Policy shall be deemed to have been amended and revised accordingly.

**13. Revision:**

The Company reserves the right to revise the policy at any time and in any manner without any prior notice. Any change or revision will be updated on the Company's website and Branches of the Company.

**14. Disclosure:**

This policy shall be uploaded on the website of the Company located at <https://www.kfcapital.co.in/> Company reserves the right to record and maintain a repository of all communications between the Service Provider and Company, including but not limited to emails, notices, letters, messages, digital messages and all other forms of verbal and written communications for the purpose of complying with applicable laws and regulations.