

MPEE FINANCE PRIVATE LIMITED

Policy on Outsourcing of Financial Services

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Introduction

'Outsourcing' is defined as the NBFC's use of a Third-Party hereafter referred as "Service Provider" to perform activities on continuing basis that would normally be undertaken by the NBFC itself, now or in the future. 'Continuing basis' includes agreements for a limited period.

Typically, 'Outsourced Financial Services' includes applications processing (loan origination), document processing, marketing and research, supervision of loans, data processing and back office related activities, besides others.

This policy is applicable to all categories of products and services offered by the Company.

The Board of Directors has approved and adopted this 'Outsourcing Policy' on April 10, 2024.

Objective

Mpee Finance Private Limited (MPEE) may be intending to outsource any of its financial activities and thus is putting in place a comprehensive outsourcing policy approved by its Board, which incorporates, inter alia criteria for selection of such activities as well as service providers, delegation of authority depending on risks and materiality and systems to monitor and review the operations of these activities.

The objective of having policy in place for outsourcing activity is to protect the interest of the customers & investor of MPEE and to ensure that the Company and the Reserve Bank of India (RBI) have access to all relevant books, records and information available with service provider and to ensure that outsourcing arrangements neither diminish its ability to fulfill its obligations to customers and RBI nor impede effective supervision by RBI.

MPEE therefore shall take steps to ensure that the service provider employs the same high standard of care in performing the services as is expected to be employed by the MPEE, as if the activities were conducted within the MPEE and not outsourced. Accordingly, MPEE shall not engage in outsourcing that would result in the Company's internal control, business conduct or reputation being compromised or weakened.

RBI Directions

RBI has issued directions on Managing Risks and Code of Conduct in Outsourcing of Financial Services by NBFCs. The directions are applicable to material outsourcing arrangements which may be entered into by an NBFC with a service provider located in India or elsewhere. The service provider may either be a member of the group/ conglomerate to which the NBFC belongs or an unrelated party.

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, such as usage of courier, catering of staff, housekeeping and janitorial services, security of the premises, movement and archiving of records etc.

Activities that shall not be outsourced

MPEE shall not outsource following services:

- Core management functions including internal audit, strategic and compliance functions.
- Decision-making functions such as determining compliance with KYC norms.
- Sanction of loans.
- Management of investment portfolio.

However, for NBFCs in a group/ conglomerate, these functions may be outsourced within the group subject to compliance with instructions elaborated below in outsourcing within the group.

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 mentioned below:

- the level of importance to the NBFC of the activity being outsourced as well as the significance of the risk posed by outsourced activity;
- the potential impact of the outsourcing activity on the NBFC on various parameters such as earnings, solvency, liquidity, funding capital and risk profile;

- 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;
- the cost of the outsourcing activity as a proportion of total operating costs of the NBFC;
- the aggregate exposure to that particular service provider, in cases where the NBFC outsources various functions to the same service provider and
- the significance of activities outsourced in context of customer service and protection.

Roles & Responsibilities

Board of Directors

The roles and responsibilities of Board of Directors shall be as below:

- Approving a framework to evaluate the risks and materiality of all existing and prospective outsourcing activities and the policies that apply to such arrangements;
- Deciding on business activities of a material nature to be outsourced and approving such arrangements;
- Setting up suitable administrative framework of senior management for the purpose of these directions;
- Undertaking regular review of outsourcing strategies and arrangements for their continued relevance, safety and soundness;
- Shall take the responsibility for the actions of their service provider
- Shall take the responsibility to maintain the confidentiality of information pertaining to the customers that is available with the service provider;
- Shall ensure that the service provider, if not a group company of the MPEE, 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.

Senior Management Team

Roles and responsibilities of the senior management team shall be as below:

- Evaluating the risks and materiality of all existing and prospective outsourcing based on the framework approved by the Board;

- Developing and implementing sound and prudent outsourcing policies and procedures commensurate with the nature, scope and complexity of the outsourcing activity;
- Reviewing periodically the effectiveness of policies and procedures;
- Communicating information pertaining to material outsourcing risks to the Board in a timely manner;
- Ensuring that 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 compliance with set policies;
- Undertaking periodic review of outsourcing arrangements to identify new material outsourcing risks as they arise and
- Shall ensure to have a robust grievance redress mechanism, which in no way shall be compromised on account of outsourcing.

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.

MPEE shall evaluate 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.
- **Reputation Risk** – Where the service provided is poor and customer interaction is not consistent with the overall standards expected of the Company. It is to be ensured that none of the actions of the vendor or its agents has an adverse impact on the Mpee group’s brand image or reputation in the market.
- **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 MPEE may be subjected to fines, penalties, or punitive damages resulting from supervisory actions.

- **Exit Strategy Risk** – Where the Company may be 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.
- **Counter party Risk** – Where there is inappropriate underwriting or credit assessments.
- **Contractual Risk** – Where MPEE may not have the ability to enforce the contract.
- **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.
- **Country Risk** – Due to the political, social or legal climate creating added risk.

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. MPEE 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. The Company shall also consider, issues 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 contracted period;
- Financial soundness and ability to service commitments even under adverse conditions;
- Business reputation and culture, compliance, complaints 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 systems of the service provider with the MPEE's requirements and objectives;
- Market feedback of the prospective service provider's business reputation and track record of their services rendered in the past;
- Level of concentration of the outsourced arrangements with a single party.

Outsourcing Contract

MPEE shall ensure the terms and conditions governing the contract with the service provider are carefully defined in written agreements and vetted by MPEE's legal team/advisors 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 MPEE 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. MPEE will consider some of the key provisions while entering into contract with the service provider, which are mentioned below:

- The contract shall clearly define what activities are going to be outsourced including appropriate service and performance standards;
- Ensure that MPEE 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 continuous monitoring and assessment by MPEE 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 MPEE of the use of subcontractors by the service provider for all or part of an outsourced activity;
- 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 MPEE;

- Outsourcing agreements shall include clauses to allow the Reserve Bank of India or persons authorized by it to access MPEE's documents, records of transactions, and other necessary information given to, stored or processed by the service provider within a reasonable time;
- 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;
- The outsourcing agreement shall also provide that confidentiality of customer's information shall be maintained even after the contract expires or gets terminated and MPEE 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 contract:

- 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 by the parties;
- Provides for 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 clause, etc.

Confidentiality and Security

Public confidence and customer trust in the Company is a prerequisite for the stability and reputation of the Company. Hence the NBFC shall seek to ensure the stability and reputation of the NBFC. Hence, the NBFC 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.

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 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 other NBFCs, care shall be taken to build strong safeguards so that there is no comingling of information/documents, records and assets. 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. The Company shall immediately notify RBI in the event of any breach of security and leakage of confidential customer related information. In these eventualities, the Company would be liable to the customers for any damages.

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

MPEE shall ensure that the 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.

The Company shall put in place a Board approved Code of Conduct for DSA/ DMA / Recovery Agents, and obtain their undertaking to abide by the code prior to avilment of such services from the service providers. In addition, Recovery Agents shall adhere to extant instructions on Fair Practices Code for the Company as also their own code for collection of dues and repossession of security. It is essential that Recovery Agents refrain from action that could damage the integrity and reputation of MPEE and that they observe strict customer confidentiality.

MPEE 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 privacy of the debtors' family members, referees and friends, making threatening and anonymous calls or making false and misleading representations.

Business Continuity and Management of Disaster Recovery Plan

MPEE shall ensure that its service providers have a robust framework for documenting, maintaining and testing business continuity and recovery procedures. MPEE shall ensure that the service provider periodically tests the Business Continuity and Recovery Plan and may also consider joint testing and recovery exercises with the service provider.

In order to mitigate the risk of unexpected termination of the outsourcing agreement or liquidation of the service provider, MPEE shall retain an appropriate level of control over their outsourcing and the right to intervene with appropriate measures to continue its business operations in such cases without incurring prohibitive expenses and without any break in the operations of the Company and its services to the customers.

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

Outsourcing may lead to sharing of facilities operated by the service provider. The Company shall ensure that service providers are able to isolate MPEE's information, documents and records and other assets. This is to ensure that in appropriate situations, all documents, records of transactions and information given to the service provider, and assets of the NBFC can be removed from the possession of the service provider in order to continue its business operations or deleted, destroyed or rendered unstable.

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 records 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.

MPEE 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 in business continuity preparedness.

In the event of termination of the outsourcing agreement for any reason in cases 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.

Grievance Redressal related to Outsourced Activities

MPEE shall constitute appropriate Grievance Redressal Machinery as per guidelines of the RBI. At the operational level, the Company shall display name and contact details (Telephone / Mobile Numbers as also email address) of the Grievance Redressal Officer prominently at the 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 MPEE's Grievance Redressal Machinery shall also deal with the issues relating to services by the outsourced agency. Generally, a time limit of 30 days may be given to the customers for preferring 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 Company's website.

Reporting of transactions to FIU or other competent authorities

MPEE would ensure submission of Currency Transaction Reports and Suspicious Transaction Reports to FIU or any other competent authority in respect of the MPEE's customer related activities carried out by the service providers.

Outsourcing within the Group

The Company may decide to have back-office and service arrangements/ agreements with group entities e.g. sharing of premises, legal and other professional services, and hardware and software applications, centralize back-office functions, outsourcing certain financial 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. Moreover, the customers shall be informed specifically about the company which is

actually offering the product/ service, wherever there are multiple group entities involved or any cross selling observed.

While entering into such arrangements, MPEE shall ensure that:

- Arrangements are appropriately documented in written agreements with details like scope of services, charges for the services and maintaining confidentiality of the customer's data;
- Such arrangement does 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 MPEE and those of its other group entities are undertaken;
- 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 MPEE;
- MPEE shall 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;
- If the premises of MPEE are shared with the group entities for the purpose of cross-selling, the Company shall take measures to ensure that the MPEE's identification is distinctly visible and clear to the customers. The marketing brochure used by the group entity and verbal communication by its staff / agent in the MPEE premises shall mention nature of arrangement of the entity with MPEE so that the customers are clear on the seller of the product.
- MPEE shall 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.