



Indian School Finance Company Private Limited

VERSION-1

Retail Outsourcing Policy Version -1.04/12/11/2024

SCOPE & BACKGROUND

To succeed in business, we have to address our target customer segment's need for simplicity, convenience, ease of access and quick turnaround time; while ensuring that we have robust risk management systems in place to assess the customer and evaluate the asset & collaterals better than the competition. Our aim is to achieve higher returns while taking on moderate risk through focused product & service arbitrage through usage of new age technology and nimble yet robust processes.

For this, we plan to focus on core business activities of

- Lead Generation / Customer segmentation
- Product & Process
- Credit assessment
- Risk monitoring
- Customer Grievances
- Customer documentation

We expect the lending business to grow rapidly across geography, customer segments and products. The sourcing of business and delivery to customers involve various levels of interaction between internal departments, external agencies & systems. In order to source the business and process the same (end to end), there are various activities involved which the ISFC needs to undertake. However, given that the quantum and multiplicity of activities involved, financial institutions and even banks, retain the core activities while the non-core activities are outsourced to vendors who are qualified to perform and discharge these activities at the lowest cost, high level of quality and productivity. Outsourcing is a strategic management tool that not only is cost-effective but also a scalable model offering economies of scale. It is necessary for Indian School Finance Company private Ltd (ISFC) to increase the scale of operations with control on overheads, we have to depend on outsourcing few of its process.

ISFC has also sold its entire loan book in FY24 and most of the employees have been absorbed by the buyer. ISFC way forward is going to focus on Impact Focused Non-Banking Finance Company (NBFC). The new portfolio aims to achieve both social and financial objectives, driving meaningful impact while aligning with Gray Matters Capital's overarching purpose. ISFC new vision is to empower women in India by supporting Impact Organizations with debt solutions in Employability, Livelihoods, Skilling and Credit access.

The outsourcing of any activity by ISFC does not diminish the obligations, and those of its Board and senior management, who have the ultimate responsibility for outsourced activity. ISFC would be responsible for actions of its service provider including Direct Sale Agents/Direct Marketing Agents and recovery agents and confidentiality of information pertaining to customers that is available with service provider. ISFC shall retain ultimate control of outsourced activity.

ISFC will continue to outsource non-core activities other than core Business activities mentioned above to their existing vendors with whom ISFC is having continued business/contractual relationship.

The list of activities for which vendors already exists with ISFC are mentioned below.

The list of ISFC's Outsourcing agencies are as follows:

- a. Customer Verification / Field Investigation Agencies
- b. Collateral Verification / Diligence / Management Agencies
- c. Loan Book Management and Loan disbursement process,
- d. Legal Verification and Technical (Property Valuation)
- e. Charge Creation – Registrar of Companies (ROC)
- f. IT Software Management
- g. Other sundry Agencies for Cibil and Institutional Cibil
- h. Data Base Management System
- i. Data Storage
- j. Preservation of documents post termination of the contract
- k. Background Verification
- l. Courier services
- m. Fraud Agencies
- n. Printing vendors
- o. Accounting, Vendor Payment Management
- p. Outsourced Company Secretary to handle Compliance
- q. Collection agents
- r. Salary Processing and other statutory Compliance vendor
- s. Employee Hiring Consultants
- t. HRMS Vendor
- u. Collateral Valuation and Due diligence

ADVANTAGES OF OUTSOURCING

- Instant **scale** of business across all geographies
- Wide network of Channel partners/ DSAs helps in achieving **diversification** of asset base
- **Uniform** charges & delivery across locations
- **No fixed cost** incurred towards establishment. The commercials are directly linked to the volumes i.e. the payment is on a **variable model** with no fixed cost and tend to be **cost-effective**
- Can be increased or decreased as per business cycles
- We can access the expertise of skilled professionals who know the geography and demographics of their field and who require **no training time lag**
- Reduction in investment in infrastructure and manpower for non-core activities in the near term
- Access to **industry best practices** perfected by the Channel Partners / Process Vendors which can aid in improving our policies, processes and sales strategy
- Instant access to industry best and agile IT software's being used.

- This also helps in improving our **turnaround time (TAT)** with high quality of reporting
- Some of these vendors also assist in **reducing delinquencies** as they have better information about the negative areas of their field of operation. Sometimes they have long continued relationships with the customers e.g. DSAs and may also aid in collections and recovery
- Having an experienced in-house vertical increases the head count and the associated fixed cost.
- Their services are required to make representations in various external agencies on a day-to-day basis which are otherwise **mundane activities**.
- Better relationships with Local Bodies which especially aids in collections/ recovery / legal and FCU
- Av ailment of technological know-how – Outsourcing leads to the ability to utilize the technological know-how of other organizations. This allows business to find the specific requirements they need to implement their target objectives.
- Deployment of core competencies

PRECAUTIONS

Channel partners may provide best quality customers to existing players with whom they have a well-established, long-standing relationship – This can be mitigated by properly defining our credit norms.

Tampering of information is possible in case of existing strong relationship between customer and DSA which can lead to higher eligibility, funding against fraudulent collateral, funding against assets with no clear title, chances of kickbacks.

This risk is managed by effective internal / external dedupe, negative database, selection criteria of the agency, maker checker concept applicable to agency and within the system.

INDUSTRY PRACTICE

All leading financial institutions – MNC & private sector banks, NBFCs have outsourced all the above-mentioned activities and have focused only on the core activities like strategic planning, decision making, guidelines, and norms pertaining to RBI compliance. All the activities detailed in this note have been outsourced several years ago by most players and the same has yielded positive results in terms of managing costs (since costs are fixed - at peak capacity level despite varying volumes).

ISFC's Core activities to be retained are broadly classified	
Business	Strategy & Planning, Product Development. Selection of Channel Partners, Sec Decisions pertaining waiver of Business-related expenses, Financial related exp Operational activities
Credit	Policy Formulation, Process Formulation, Credit Decision making, Sanction, Disbur Empanelment of valuers, Due diligence auditors, Legal and technical vendors
Operations	Process Implementation, Loan documentation, Disbursal process and Monitoring, S creation, Creation and release of Charge
Internal Audit	Risk Management, Internal Audit, Selection of Collection Agencies,

Additionally, the primary responsibility of regulatory compliances would vest with Finance & Compliance function.

MATERIAL SOUTSOURCING

Material outsourcing arrangements are those which, if disrupted, have potential to significantly impact the business operations, reputation and profitability or customer service. Materiality of outsourcing would be based on:

- the level of importance to the ISFC of the activity being outsourced as well as the significance of the risk posed by the same;
- the potential impact of the outsourcing on ISFC on various parameters such as earnings, solvency, liquidity, funding capital and risk profile;
- the likely impact on ISFC's reputation and brand value, and ability to achieve its business objectives, strategy and plans, should the service provider fail to perform the service;
- the cost of the outsourcing 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;
- the significance of activities outsourced in context of customer service and protection.

ROLE OF BOARD AND SENIOR MANAGEMENT

The outsourcing of any activity by ISFC does not diminish its obligations, and those of its Board and senior management, who have the ultimate responsibility for the outsourced activity. ISFC would therefore be responsible for the actions of their service provider including Direct Sales Agents/Direct Marketing Agents and recovery agents and the confidentiality of information pertaining to the customers that is available with the service provider. ISFC shall retain ultimate control of the outsourced activity.

ROLE OF BOARD

Board of ISFC to which powers have been delegated shall be responsible for the following:

- approving a framework to evaluate the risks and materiality of all existing and prospective outsourcing and the policies that apply to such arrangements;
- laying down appropriate approval authorities for outsourcing depending on risks and materiality;
- setting up suitable administrative framework of senior management for the purpose of these instructions;
- undertaking regular review of outsourcing strategies and arrangements for their continued relevance, and safety and soundness; and
- deciding on business activities of a material nature to be outsourced, and approving such arrangements.

RESPONSIBILITIES OF SENIOR MANAGEMENT

- 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, 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.

EVALUATION OF RISKS

ISFC 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 ISFC.
- Reputation Risk – Where the service provided is poor and customer interaction is not consistent with the overall standards expected of ISFC.
- 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 ISFC is subjected to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements due to omissions and commissions of the service provider.
- Exit Strategy Risk– Where ISFC is over reliant on one firm, the loss of relevant skills in ISFC itself preventing it from bringing the activity back in-house and where ISFC has entered into contracts that make speedy exits prohibitively expensive.
- Counter party Risk– Where there is inappropriate underwriting or credit assessments.
- Contractual Risk– Where the NBFC 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 NBFC may lack control over the service provider.
- Country Risk– Due to the political, social or legal climate creating added risk.

EVALUATING CAPABILITY 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, operational and reputational factors. 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 outstanding or potential litigation
- security and internal control, audit coverage, reporting and monitoring environment, business continuity management; and
- ensuring due diligence by service provider of its employees;
- service providers' systems are compatible with their own and also whether their standards of performance including in the area of customer service are acceptable to it;
- issues relating to undue concentration of outsourcing arrangements with a single service provider

OUTSOURCING AGREEMENT

The terms and conditions governing the contract between ISFC and service provider are carefully defined in written agreements and vetted by ISFC's legal counsel on their legal effect and enforceability. The Agreements provides some of the key provisions as following:

- clearly defines what activities are going to be outsourced including appropriate service and performance standards;
- clauses to ensures it has the ability to access all books, records and information relevant to the outsourced activity available with the service provider;
- clauses to provide for continuous monitoring and assessment by ISFC of the service provider so that any necessary corrective measure can be taken immediately;
- includes a termination clause and minimum period to execute a termination provision, if deemed necessary;
- clauses 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;
- there must be contingency plans to ensure business continuity;
- clauses to provide for the prior approval/consent by ISFC of the use of subcontractors by the service provider for all or part of an outsourced activity;
- clauses to provide ISFC 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 ISFC;
- clauses to include clauses to allow the Reserve Bank or persons authorised by it to access ISFC's documents, records of transactions, and other necessary information given to, stored or processed by the service provider within a reasonable time;
- clauses to include a clause to recognise the right of the Reserve Bank to cause an inspection to be made of a service provider of ISFC and its books and account by one or more of its officers or employees or other persons;
- clauses to provide that confidentiality of customer's information shall be maintained even after the contract expires or gets terminated;
- clauses 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.
- clauses to address risk and risk mitigation strategies;
- clauses to allow ISFC to retain an appropriate level of control over outsourcing and the right to intervene with appropriate measures to meet legal and regulatory obligations.
- clauses to bring out the nature of legal relationship between the parties, i.e., whether agent, principal or otherwise.

CONFIDENTIALITY AND SECURITY

- ISFC ensures that preservation and protection of the security and confidentiality of customer information in the custody or possession of the service provider;
- ISFC ensures 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;
- ISFC ensures that the service provider is able to isolate and clearly identify ISFC'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 NBFCs, care shall be taken to build strong safeguards so that there is no comingling of information/documents, records and assets;

- ISFC reviews and monitors the security practices and control processes of the service provider on a regular basis and require the service provider to disclose security breaches;
- ISFC ensures that it shall immediately notify the Reserve Bank in the event of any breach of security and leakage of confidential customer related information. In these eventualities, the ISFC would be liable to its customers for any damages.

RESPONSIBILITIES OF DIRECT SALES AGENTS (DSA)/ DIRECT MARKETING AGENTS (DMA)/ RECOVERY AGENTS

- ISFC ensures 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.
- Recovery Agents shall adhere to extant instructions on Fair Practices Code for NBFCs as also their own code for collection of dues and repossession of security. It is essential that the Recovery Agents refrain from action that could damage the integrity and reputation of ISFC and that they observe strict customer confidentiality.
- ISFC 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 upon the privacy of the debtors' family members, referees and friends, sending inappropriate messages either on mobile or through social media, making threatening and/or anonymous calls persistently⁷⁰ calling the borrower and/or calling the borrower before 8:00 a.m. and after 7:00 p.m. for recovery of overdue loans or making false and misleading representations. Any violation in this regard will be viewed seriously

BUSINESS CONTINUITY AND MANAGEMENT OF DISASTER RECOVERY PLAN

- ISFC ensures that its service providers has developed and established a robust framework for documenting, maintaining and testing business continuity and recovery procedures. ISFC ensures that the service provider periodically tests the Business Continuity and Recovery Plan and occasional joint testing and recovery exercises with its service provider.
- In order to mitigate the risk of unexpected termination of the outsourcing agreement or liquidation of the service provider, ISFC will 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 ISFC and its services to the customers.
- In establishing a viable contingency plan, ISFC 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.
- Outsourcing often leads to the sharing of facilities operated by the service provider. ISFC ensures that service providers are able to isolate ISFC'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 ISFC, can be removed from the possession of the service provider in order to continue its business operations, or deleted, destroyed or rendered unusable.

MONITORING AND CONTROL OF OUTSOURCED ACTIVITIES

- ISFC shall have in place a management structure to monitor and control its outsourcing activities. It shall ensure that outsourcing agreements with the service provider contain provisions to address their 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 ISFC shall be maintained. The records shall be updated promptly, and half yearly reviews shall be placed before the Board or Risk Management Committee.
- Regular audits by either the internal auditors or external auditors of ISFC shall assess the adequacy of the risk management practices adopted in overseeing and managing the outsourcing arrangement, ISFC's compliance with its risk management framework and the requirements of these directions.
- ISFC 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 the branch, 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.
- In certain cases, like outsourcing of cash management, might involve reconciliation of transactions between ISFC, the service provider and its sub-contractors, ISFC shall ensure that reconciliation of transactions between ISFC and the service provider (and/or its sub-contractor), are carried out in a timely manner. An ageing analysis of entries pending reconciliation with outsourced vendors shall be placed before the Audit Committee of the Board (ACB) and ISFC shall make efforts to reduce the old outstanding items therein at the earliest.
- A robust system of internal audit of all outsourced activities shall also be put in place and monitored by the Audit Committee of Board of ISFC.

REDRESS OF GRIEVANCES RELATED TO OUTSOURCED SERVICES

ISFC has appointed **Ms.Navaneetha Agarapu, Operations Manager, navaneetha.a@isfc.in, Contact No.8520926424 as Grievance Redressal Officer**. The designated officer shall ensure that genuine grievances of customers including issue relating to services provided by outsourced agency are redressed promptly without involving delay. 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 ISFC's website.

REPORTING OF TRANSACTIONS TO FIU OR OTHER COMPETENT AUTHORITIES

ISFC would be responsible for making Currency Transactions Reports and Suspicious Transactions Reports to FIU or any other competent authority in respect of ISFC's customer related activities carried out by the service providers.

OUTSOURCING WITHIN A GROUP/CONGLOMERATE

In a group structure, ISFC may have back-office and service arrangements/ agreements with 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. Before entering into such arrangements with group entities, ISFC shall have a Board approved policy and also service level agreements/arrangements 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 ISFC shall ensure that:

- are appropriately documented in written agreements with details like scope of services, charges for the services and maintaining confidentiality of the customer's data;
- 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 ISFC and those of its other group entities are undertaken;
- do not compromise the ability to identify and manage risk of ISFC on a stand-alone basis;
- do not prevent the Reserve Bank from being able to obtain information required for the supervision of ISFC or pertaining to the group as a whole;
- incorporate a clause under the written agreements that there is a clear obligation for any service provider to comply with directions given by the Reserve Bank in relation to the activities of ISFC.

ISFC shall ensure that its ability to carry out 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 ISFC are shared with the group entities for the purpose of cross-selling, ISFC shall take measures to ensure that the entity'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 ISFC premises shall mention nature of arrangement of the entity with ISFC so that the customers are clear on the seller of the product.

ISFC 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.

OFFSHORE OUTSOURCING OF FINANCIAL SERVICES

- The engagement of service providers in a foreign country exposes an NBFC to country risk -economic, social and political conditions and events in a foreign country that may adversely affect ISFC. Such conditions and events could prevent the service provider from carrying out the terms of its agreement with ISFC. To manage the country risk involved in such outsourcing activities, ISFC shall take into account and closely monitor Government policies and political, social, economic and legal conditions in countries where the service provider is based, both during the risk assessment process and on a continuous basis and establish sound procedures for dealing with country risk problems. This includes having appropriate contingency and exit strategies. In principle, arrangements shall only be entered into with parties operating in jurisdictions generally upholding confidentiality clauses and agreements. The governing law of the arrangement shall also be clearly specified.
- The activities outsourced outside India shall be conducted in a manner so as not to hinder efforts to supervise or reconstruct the India activities of ISFC in a timely manner.

- As regards the offshore outsourcing of financial services relating to Indian operations, ISFC shall additionally ensure that:
- Where the off-shore service provider is a regulated entity, the relevant off-shore regulator will neither obstruct the arrangement nor object to the Reserve Bank inspection visits/visits of ISFC internal and external auditors;
- The availability of records to management and the Reserve Bank will withstand the liquidation of either the offshore custodian or ISFC in India;
- The regulatory authority of the offshore location does not have access to the data relating to Indian operations of ISFC simply on the ground that the processing is being undertaken there (not applicable, if offshore processing is done in the home country of ISFC);
- The jurisdiction of the courts in the offshore location where data is maintained does not extend to the operations of ISFC in India on the strength of the fact that the data is being processed there even though the actual transactions are undertaken in India; and
- All original records continue to be maintained in India.

IT OUTSOURCING POLICY

ISFC shall evaluate the need for Outsourcing of IT Services based on comprehensive assessment of attendant benefits, risks and availability of commensurate processes to manage those risks. REs shall *inter-alia* consider:

- determining the need for outsourcing based on criticality of activity to be outsourced;
- determining expectations and outcome from outsourcing;
- determining success factors and cost-benefit analysis;
- deciding the model for outsourcing;

KEY CONSIDERATIONS FOR EMPANELLING VENDORS

Adequate checks and controls are needed to ensure that we weed out the non-serious and potentially fraudulent vendors. All outsourcing agreements with the service provider will contain provisions to address monitoring and control of outsourced activities. The record of all material outsourcing will be maintained by the relevant departments at the Head Office. The record will be readily accessible for review by the Board and / or the Senior Management. Each of the above vendors will be appointed as per the detailed process note for the respective activity. The broad checks and controls are as follows:

- Standardised vendor identification & empanelment processes across the Company
- Qualification of the vendor as per job requirement (e.g. lawyers for Legal opinion and Civil engineers for technical valuation etc.)
- Number of existing clients and their reputation / Empanelment with reputed institutions
- Existing Business volumes & Years of operation
- Quality of the team employed
- Cost Effectiveness / Turnaround Time (TAT)
- Quality Reports /MIS in the desired format
- Assessment of Infrastructure in place / Office / Audit Compliance
- Reference checks of the vendors through market feedback both by the concerned team & the fraud control department independently.
- Compliance with the Know Your Customer (KYC) norms for the Vendors / Promoters.

- Cross verification of the documents submitted by the vendor while being empanelled
- CIBIL check for the Vendor Entity and its various promoters.
- The financial and operational standing of the service provider will be reviewed annually in the first quarter of every year to assess his ability to continue to meet the outsourcing obligations. Such due diligence should highlight any deterioration or breach in performance standards, confidentiality and security, and in business continuity preparedness.
- The senior management (COO/ED/Director) will review the performance of service providers arranged at corporate level based on information furnished by the concerned department.
- The service provider, if not a group company of the NBFC, not to be owned or controlled by any director of the ISFC or his relatives

The above-mentioned checks will ensure that we have a robust system of empanelling the vendors and this will go a long way in building a sustainable and robust business model.

TYPES OF VENDORS AND THEIR FUNCTIONS

SALES FUNCTION	
VENDOR	ACTIVITIES PERFORMED
Direct Sales Agent (DSA) or Connectors	<ul style="list-style-type: none"> • Sourcing of business as per ISFC's policy • Collection of documentation as prescribed by ISFC • Facilitating loan processing • Assisting in Collections where there is delinquency arising out of vendor leads • Visibility to ISFC – Owned premises gives the option of conducting various visibility campaigns for us
CREDIT FUNCTION	
VENDOR	ACTIVITIES PERFORMED
Field Investigation	<ul style="list-style-type: none"> • Validation of the address, personal information & office address as mention the customers in the application form • Observing and reporting the level of business activity and the standard of living of the customer • Background Verification of the customer and Political link confirmation • Verify the contact number of the customer
Tele-verification	<ul style="list-style-type: none"> • Speak to the customer and validate the information provided in the application form • Auto verification of the SMS of the customer • Verify the authenticity of documents submitted by the customer
Document Verification	<ul style="list-style-type: none"> • Verify the invoices for the asset / Bank statements / insurance policies etc. • Specialized agencies having good relations with government bodies, banks, Income tax dept and so on • Scrutiny of the property papers / asset documents submitted by the customer for creation of the mortgage
Legal Verification	<ul style="list-style-type: none"> • Provide legal opinion on the same • Verification of Original Property Papers vetting • Handling documentation checking for Balance Transfer cases and handing over original documents to ISFC • Conduct title searches at the Sub-Registrar's office

Technical Valuation/ Asset Valuation	<ul style="list-style-type: none"> • To ensure that charge creation is as per the prevailing regulations • Ensure MODT/MOE has been created in favor of ISFC • To ensure that the external & internal asset condition is as per ISFC's policy • Provide estimated market valuation of the Collateral asset • Pre-appointment checks for all vendors appointed (Including DST / CPA). • Loan application / document screening • Reject file sampling
Fraud / TPT Check/	<ul style="list-style-type: none"> • Mystery shopping • Forensic screening • Asset delivery /End usage • Collection settlement verification • Receipt book monitoring and checks
Post Disbursement Documentation (PDD) & Collection	<ul style="list-style-type: none"> • Collect the prescribed documents post disbursement from the customer • Collect the documents required from various authorities like society, builder, development authority and other financial institutions. • Conduct RoC search for companies – file petitions, check if charge already exists for asset under consideration
Charge Creation	<ul style="list-style-type: none"> • Ensure charge or hypothecation is created in favour of ISFC •

OPERATIONS FUNCTION

VENDOR	ACTIVITIES PERFORMED
Printing	<ul style="list-style-type: none"> • Printing various documents like application forms, file covers, storage covers, agreements and other documents
Document Scanning Storage & Retrieval of Documents	<ul style="list-style-type: none"> • Storage of all physical customer documents which have been disbursed • Scanning of transaction documents and property documents so that they are available in electronic form • Retrieval of documents as instructed • Storage of Post-Dated Cheques (PDCs)
Loan Servicing Vendor	<ul style="list-style-type: none"> • Banking of PDCs as per due date • Electronic Clearance System (ECS) – Lodgement and debits into the customer account towards repayments.
Operations	<ul style="list-style-type: none"> • Dispatch of documents from ISFC offices to the central office and vice versa.

COLLECTIONS FUNCTION

VENDOR	ACTIVITIES PERFORMED
Tele-calling	<ul style="list-style-type: none"> • Awareness calling for 1st few EMIs • Soft collection calling <180 days • Storage of Post-Dated Cheques (PDCs)
Loan Servicing Vendor	<ul style="list-style-type: none"> • Banking of PDCs as per due date • Electronic Clearance System (ECS) – Lodgement and debits into the customer account towards repayments
Legal Agencies	<ul style="list-style-type: none"> • Issue legal notices to the delinquent customers • Repossession of collateral provided as per process laid down by law
Hard Collections	<ul style="list-style-type: none"> • Collection of dues from customers who have passed the soft buckets • Issuance of dunning/collection letters • Repossess assets Asset / Property • Auction/Bids for asset disposal

IT FUNCTION

VENDOR	ACTIVITIES PERFORMED
IT system software	<ul style="list-style-type: none"> • LOS and LMS to be implemented • Continuous upgradation and maintenance of software • HRMS software

IT system underwriting enabler	<ul style="list-style-type: none"> • Provide data and analysis which will be useful for credit decision making • Enable and enhance use of artificial intelligence. • Retail lending digital platform with all API integration.
DBMS Vendor	<ul style="list-style-type: none"> • Storage and maintenance of digital data and space containing customer information and accounts
IT Hardware vendor	<ul style="list-style-type: none"> • Purchase of new IT hardware or Leasing arrangement • On-time maintenance and updation of hardware

HR FUNCTION

VENDOR ACTIVITIES PERFORMED

IT system software	<ul style="list-style-type: none"> • HRMS software/Tally software • Salary processing and handling related statutory compliances
HR Payroll Vendor	
Hiring Consultants	<ul style="list-style-type: none"> • Set of consultants, supporting in local or senior position hiring.

Since outsourcing of such activities has matured significantly in the industry and many agencies provide similar set of multiple activities, we will, as per industry practice, follow the established outsourcing model

RISKS AND MITIGANTS

The major risk involves nexus between the customer and the Outsourced vendor (DSA / Field Investigator / Technical valuer etc). This risk can be mitigated to a large extent by

- Creating a maker-checker structure which is further strengthened by review at Branch/HO level
- Appointment of the vendor after proper market reference including a thorough KYC of the Agency & its promoters (incl. CIBIL check) on record before agreement is executed
- In-house check by the Fraud Control Unit

Activity	Risk	Mitigants
DSA Sourcing	<ul style="list-style-type: none"> • Customer nexus for fraudulent funding • Misrepresentation in the market place • Unethical practices • Concentration Risk 	<ul style="list-style-type: none"> • Regular market checks & collection efficiency monitoring • DSA code captured in system against each case for future reference • Fraud control check on every file sourced – 100% and specified % of sampling. • Large number of DSAs empanelled ensures that concentration risk • We will also have internal percentage allocation of be sourced through outsourced and inhouse channels
Field Investigation	<ul style="list-style-type: none"> • Wrong information provided • Customer nexus 	<ul style="list-style-type: none"> • Personal discussion is conducted at the customer by the underwriter • Regular market and portfolio checks • Appoint Multiple agencies per location • Cross verification through Field investigation.
Tele Verification	<ul style="list-style-type: none"> • Wrong information provided • Customer nexus 	<ul style="list-style-type: none"> • Personal discussion is conducted at the customer by the underwriter • Regular market and portfolio checks. • Appoint Multiple agencies per location & system allocation
Legal Verification	<ul style="list-style-type: none"> • Lawyer's competence & expertise 	<ul style="list-style-type: none"> • Verification of professional qualification and inquiry reputation and track record

	<ul style="list-style-type: none"> Wrong /incomplete information provided 	<ul style="list-style-type: none"> Regular market and portfolio checks Appoint Multiple agencies per location & system ru allocation Agencies well networked with banks/govt bodies for c verification
Technical Valuation - Property/ equipment	<ul style="list-style-type: none"> Overestimation of Valuation Asset not inspected physically 	<ul style="list-style-type: none"> Proper appointment and empanelment process Multiple valuation for the same asset based on ti (mortgages) Photographs of asset is collected along with the repo Professionally qualified agents employed Sampling is done by the FCU /Internal Audit dept Appoint Multiple agencies per location & system ru allocation
Post Disbursement Documentation (PDD) collection	<ul style="list-style-type: none"> Document not collected Wrong / incomplete / fraudulent documents collected 	<ul style="list-style-type: none"> Robust background check and empanelment proces System based triggers for pending documents Each document submitted is cross verified by the operations team against the pendency with turnaround time (TAT).
Security/Charge Creation with RoC	<ul style="list-style-type: none"> Delay in charge creation Charge not created 	<ul style="list-style-type: none"> Verification of the charge created on the RoC websit Regular sampling by the Internal Audit Dept
Printing Vendors	<ul style="list-style-type: none"> Data Leakage 	<ul style="list-style-type: none"> Ensure that key documents such as sanction letters in-house
Document scanning, storage & retrieval	<ul style="list-style-type: none"> Data Leakage Documents not stored properly Delay in retrieval of scanned / physical documents 	<ul style="list-style-type: none"> Only reputed vendors with requisite physical and/or capacity appointed. These are now evolved as large c vendors, thereby mitigating such risk Stringent empanelment process with proper cl water/fire proofing Execution of confidentiality agreement
Loan Servicing Vendor	<ul style="list-style-type: none"> Loss of instruments Instruments not banked on time 	<ul style="list-style-type: none"> Established vendors having robust systems appointe Service level agreement executed with clear delivera
Courier Services	<ul style="list-style-type: none"> Delayed delivery / Lost in transit Data leakage Financial loss (frauds) 	<ul style="list-style-type: none"> Appointment of reputed and seasoned agencies Low risk of financial frauds as all instruments will be a decentralised manner
Collection Agency	<ul style="list-style-type: none"> Customer nexus – commission on delayed payment 	<ul style="list-style-type: none"> Different agencies for different overdue buckets System / policy based allocation of delinquent cases Technology based receipt issuance and collection pr
IT Vendor	<ul style="list-style-type: none"> Inappropriate accounting of income and expenditure Increase in development cost 	<ul style="list-style-type: none"> Diligent UAT to be conducted at the time of deplo software System Audit need to be conducted at appropriate in

IDENTIFICATION & EMPANELMENT PROCESS

- Calling for Expression of interest (Eoi) / Application
- Evaluating the vendor based on their past experience and their current infrastructure.
- Due diligence should involve an evaluation of all available information about the service provider, including but not limited to:-
- 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 outstanding or potential litigation;
 - Security and internal control, audit coverage, reporting and monitoring environment
 - Business continuity management;
 - External factors like political, economic, social and legal environment of the jurisdiction in which the service provider operates and other events that may impact service performance;
 - Ensuring due diligence by service provider of its employees
-
- Signing Master and /or Service Level Agreement (SLA) with the vendor as per outsourcing policy:
 - The terms and conditions governing the contract between the ISFC and the service provider will be carefully defined in written agreements and vetted by the Legal Head on their legal effect and enforceability.
 - Every such agreement should address the risks and risk mitigation strategies identified at the risk evaluation and due diligence stages.
 - The agreement should be sufficiently flexible to allow the ISFC 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 should also bring out the nature of legal relationship between the parties – i.e. whether agent, principal or otherwise.

Key provisions of the agreement:

- Clear definition of the scope & activities outsourced
- Detailed service and performance standards for the deliverables
- Service provider's responsibilities
- Enabling provisions for ISFC to access all books, records and information relevant to the outsourced activities
- Defined periodic reporting and MIS reports to be provided by the Service Provider
- Continuous monitoring and assessment to ensure timely corrective actions
- Termination clauses with minimum notice period, where ever essential
- Data confidentiality standards to be adhered to by the Service providers' and undertaking/ (NDA)Non-disclosure Agreement) by the outsourcing agency to ensure that the data would not be used for any other purposes or shared with competitors.
- Liabilities in case of breach (incl. data leakages) of provisions of SLA
- Business Continuity Planning & infrastructure assessment for the same
- Provisions to ensure that ISFC's approval is sought before any use of sub-contractors by the vendor – ultimate responsibility lies with the Vendor
- ISFC's right to conduct audits on the vendor and obtain copies of any audit or review reports and findings made on the vendor in conjunction with the services performed for ISFC
- Clauses permitting the regulatory bodies (RBI, RoC, Income Tax Dept, etc) and persons authorised by them to access and inspect ISFC's documents, records and any other information given to, stored and processed by the vendor within the stipulated time. In the event of any delay, the vendor is responsible for payment of penalties levied on ISFC by the regulatory bodies
- Clause recognising the right of RBI or other regulatory bodies to inspect the books of accounts and premises of the Vendor
- Clear definition of Terms of payment, taxes, levies and charges, if any
- Liability and indemnification
- Other clauses as deemed appropriate by ISFC's legal department
- Demarcation of sharing resources, i.e., premises, personnel if any to be included in the agreements
- Regular audit of the NBFC to ensure compliance with risk management related to its outsourced activities
- The service provider, if not a group company of the NBFC, not to be owned or controlled by any director of the NBFC or his relatives
- Robust grievance redressal mechanism to be in place for services provided by the outsourced agency

- Form 26AS to be made compulsory wherever possible from customers.

Essential Operational Aspects of the SLA:

- Activities covered under the scope of the agreement
- Services and Key deliverables
- Timelines to complete the activity
- Skills and Expertise requirement
- Log Management
- Escalation Matrix
- Response & Resolution to problem solving and severity
- Penalty in case of failure
- Confidentiality and Security

Confidentiality and Security.

- ISFC will seek to ensure the preservation and protection of the security and confidentiality of customer information in the custody of the service provider
- Access to customer information by staff of the service provider should be on a 'need-to-know' basis
- Vendor should be able to isolate and clearly identify the ISFC's customer information, documents, records and assets to protect the confidentiality of the information
- ISFC will be obliged to inform RBI in the event of any breach of security and leakage of confidential customer related information

Management & Monitoring Process

- Vendor to provide quality manpower as per ISFC's requirements
- Provide replacement as and when advised within a reasonable time and without raising any objections/seeking clarifications
- Check thoroughly the credentials of the personnel provided so as to ensure that no unscrupulous persons are getting an access to ISFC's systems/records/premises.
- Compensate ISFC for any financial loss incurred due to the negligence of Vendor

SCOPE OF WORK AGENCY-WISE:

Certain vendors such as Printing / Courier vendors etc would be tied up at corporate level wherever available to obtain cost benefits. This scope of work is not exhaustive and additional requirements may be included wherever essential and/or in line with general market practice

Direct Sales Agent (DSA) & Connectors

- Identify the prospective customers for the loan products offered by ISFC
- Ensure complete documentation as mentioned in the laid down process is collected and submit the same for loan processing
- Communicate the status to the prospective customer and document the same for future reference / audit
- Collect post approval documents and submit the same to ISFC for release of the final disbursement / payments
- Collection of Post disbursal documents and submission the same for updating records
- Assist in collecting the early default cases and ensuring customer is contacted for the further recourse

Field Investigation

- Current Address Verification

<ul style="list-style-type: none"> ▪ Residence Address ▪ Closest Landmark ▪ Type of accommodation whether flat, row house, bungalow, chawl, hutment or any other

- Type of neighbourhood: up-market, upper middle class, middle class, lower middle class lower class etc.
- Type of surrounding: garden, car park, swimming pool, security etc.
- Ease of location: easy, difficult, very difficult or untraceable
- Persons contacted during the visit, their relation with the applicant
- Information collected from neighbours, reference check
- Current residence is rented, owned, lease etc.
- State of premises: well kept, average, badly managed
- Durables at home: Cell phone, Refrigerators, Music system etc.
- Information on Furniture and fixtures etc.
- Background check of the customer and political link to confirm

▪ Verification of Personal Information

- Age of applicant
- Qualification
- Family details
- Vehicle details
- Any other details

▪ Verification for Students Loan and Teacher Loan

- Length of profession / employment
- Work profile & Designation
- Name of Co. /Business
- Work Experience
- Persons Contacted with designation
- Area dimensions & Office layout
- Rented/owned/leased premises
- No of years of operation from the same location
- Location & State of premises
- Capacity
- No of employees
- Level of business activity

Tele Verification

This involves cross checking of the information which has been provided by the customer and capturing of the various details which are mentioned above over the phone. This makes a validation of the contact number provided by the customer

✓ Residence Address	✓ Length of employment
✓ Closest Landmark	✓ Work profile
✓ Type of accommodation	✓ Designation
✓ Current residence - rented, owned, lease	✓ Salaried/Business
✓ Age of applicant	✓ Name of Co. /Business
✓ Qualification	✓ Work Experience
✓ Family details	✓ Name of people contacted and their relation with the applicant

Legal Verification

- Scrutinize the property documents
- Give opinion on the scrutinized documents
- To conduct search at the Sub – Registrar office for the property documents
- Give title clearance report
- Original property papers vetting
- Collection of original documents in case of BT and handing over to ISFC
- Conduct RoC search to check if the property is already pledged
- Give opinion on documents required for Charge Creation

- To execute charge creation on behalf of ISFC
- To collection property papers from existing financiers / authorities

Technical Valuation (Property)/ Asset valuation etc)

- To scrutinize sanction plan / approvals for the construction in property loan applications.
- To estimate the fair market value of the property
- To evaluate the vehicle, make, model and condition of the equipment.
- To estimate the fair market value of the equipment
- To cross check equipment details with the invoices, delivery challans and physical verification

Post Disbursement Documentation (PDD) collection

Most customers become lethargic once the disbursement happens leading to delay in obtaining documents which are of legal importance. This agency is responsible for collection of the documents from the customer post disbursement. Also, it is responsible for the collection of the documents from various authorities, society and other financial institutions post disbursement of the loan

The agency/vendor will ensure that the documents reach on time with their constant follow-up and reminders. There are few documents which client needs to retrieve from various departments (i.e. Municipal Corporation, Registrar and other government department) which can be retrieved speedily through their contacts

- To coordinate with sourcing channels for the collection of Invoice , Insurance
- Submit the collected documents to ISFC for record updating.
- Maintain a copy of the collected documents / trails for future references / audit

Charge Creation – Registrar of Companies (ROC)

- Comply with Ministry of Corporate Affairs and create charge creation for the loans extended as per the request received from ISFC
- Coordinate with the customer for collection of appropriate documents / fees for charge creation.
- Communicate the charge creation status to ISFC and correct any irregularities
- Maintain copy of all the documents for future references / Audit

Document Verification

To validate the authenticity of the documents which are submitted by the customer through external parties (eg: Banks/Income Tax dept etc) to establish their credibility and also for KYC compliance such as:

- IT Verification
- Bank Statement Verification
- Employment Details Verification
- PAN Card Verification etc.

Information about the customer's savings /expenses habits will also Bank statements reflect his Savings and expenses habits, today most bank statement are sent through emails hence there are likely chances for manipulations and his employment details will reflect his source of income

Storage Vendors & Document Scanning & e- storage

Documents of all loans disbursed (files/dockets/subsequent documents/post disbursement documents (PDD's) and other archival records) will be sent to storage with the vendor and same to be maintained as per policy. Activities covered are

- Storage
- Retrieval
- Insertion
- Scanning
- Photocopy

Loan Servicing Vendor

Post dated Cheques (PDC) management is a service which includes data capture of data

required for presentation of PDC for clearing of cheques. Following are a set of activities performed in the PDC management:

- In warding of cheques
- Batch Creation
- Product wise sorting
- Scan line rectification/fixing
- Cheque date and amount entry & Health check
- Discrepancy handling
- Presentation date wise sorting
- PDC vaulting
- Presentation
- NPDC (Non-Post-Dated Cheques):
- Registration Process
- Transaction Process
- Fund Settlement

Fraud Check

The activities carried out here will include:

- Investigating fraudulent documents or profiles and creating a databank for future reference
- Sampling applications to analyse the reasons for the fraud and recovery from accused
- Checks to identify if ISFC's staff involvement exists and intimate the senior management for appropriate action in addition to loss recovery
- If any loan application is detected as fraud post disbursement (through collections) - ensure that they will recover the money from the loan Borrower by investigating in the case and filing a case against him in the police and recovering our dues

Tele calling agency – collections

- Information to customer about his / her EMI date.
- Reduce default and cheque bouncing
- Confirmation on customer contractibility
- Confirmation of address and contact numbers
- Confirming delivery of vehicle or disbursement amount
- Understanding initial customer service-related issues or disputes
- Early warning about probable nonstarters or skips.

Collections Agency

- Any possession activity should be initiated only after sending loan recall notice.
- For each possession activity, an authority letter for carrying out possession of asset as per collection manager. It is also popularly called as Repo Kit. The repossession kit will be valid for one month and should be duly signed by the collection manager. The records relating to issuance of kits will be maintained in the collection system and register.
- The letter to the police station before and after repossession to be given to the local police station. The purpose behind sending such letter is to inform the police about the possession. In case where the police does not co-operate and does not accept such letters, under such scenario letter should be sent via RPAD or telegram should be sent to any of the below mentioned police stations.
- Letters can be given to police station close to place of possession/ police station close to residence/ police station close to parking yard/ police station close to branch office.
- Letter can be given to the customer informing about the possession. The letter should be signed by the possession agency.
- Where the customer signs a surrender letter stating that he/she has voluntarily surrendered the asset. The surrender letter must be taken at the time of possession.
- The possession agency should completely fill up inventory sheets. The purpose is to get a complete inventory of items and accessories available with the asset at the time of possession. The sheets will be in quadruplicate. For commercial vehicle possessed with goods, inventory sheet properly filled up indicating goods, consignee and consignor details & it should match with invoice and packing details. It is advisable to take LR and packing details at the time of possession.
- 1st copy: Customer copy, 2nd copy: Office copy, 3rd Copy: Agency copy, 4th Copy: with possession agency keeper.
- The inventory sheet should be notarized in case the customer refuses to sign surrender letter.

- Possession to be conducted in peaceful manner and in case of any resistance from the custodian in case of any violence, the agency should abandon the possession activity immediately. The agency should document this aspect in his report and immediately inform the collection manager.
- The possession agent is not authorized to negotiate or accept any payments from the customer.

Collection Legal Agencies

To assist and co-ordinate with ISFC for

- Sec 138 under Negotiable Instrument Act
- Criminal complaints under various sections of Indian Penal Code (IPC) such as Sec 120B, Section 405, Section 406, Section 407, Section 409, Section 420, Section 463, Section 464, Section 467, Section 468, Section 471. Basically, these Sections are available for filing complaint for Criminal Conspiracy, Breach of Trust, Cheating and Forgery.
- The section can also be filed under Criminal Procedure Code (CrPC) such as Section 154(Direct lodging of FIR), Section 156(3), and Section 190 (FIR through court).
- The Civil procedure code under order 37(rule 1 & 2), order 7, rule 1 helps in filing summary suits. (Applicable if arbitration clause not available in the loan agreement)
- Arbitration is a cheaper option available for Civil recovery under Section 9(interim award for attachment of property) & Section 11(6) i.e. appointment of arbitrator.
- Securitization and reconstruction of financial assets and enforcement of security Interest act 2002.

Training & Orientation

- Each department will initially conduct a preliminary training session wherein the current processes and the training programs of the Vendor will be evaluated and they will be intimated of any changes required to be made
- There will be quarterly refresher sessions to ensure that the vendors are complying with the laid down processes and Code of Conduct
- Specific training will be imparted on compliances required for regulatory or audit purposes
- TAT requirements, reporting formats and submission processes will be regularly intimated
- Billing cycles wherever specified
- Collection agencies will need to undergo the mandated training as per RBI and NHB norms

Termination of Agency:

Agreement with agency shall stand terminated (with immediate effect) on the happening of any one or more of the following: -

- The Vendor becomes incapable of carrying out the terms of this agreement or its duties herein
- The Vendor committing a breach of any provisions of this agreement
- The Vendor goes into liquidation or is wound up or if a provisional liquidator or official liquidator or receiver is appointed to take possession of its undertaking, business or assets
- In the opinion of ISFC the interest of either ISFC or its customer/s will be in jeopardy should the Services from the Service Provider be continued
- Change in the management or ownership of the Service Provider

Notwithstanding as mentioned above, ISFC is entitled to terminate this agreement without assigning any reason whatsoever by giving one day prior written notice to the Vendor. The Vendor is entitled to terminate this agreement by giving 60 days prior written notice to ISFC without assigning any reason whatsoever.

Effects of termination: - Upon termination or expiration as dealt with in this agreement, the Vendor shall, without prejudice to the accrued rights of ISFC: -

- Immediately cease to operate as Vendor and not hold itself in any way as the Vendor of ISFC and refrain from any action that would or may indicate any relationship between it and ISFC
- Return to ISFC forthwith all materials, documents, confidential information, statements and all other properties of ISFC

