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**THE BIHAR STATE COOPERATIVE BANK LTD, BIHAR
ASHOK RAJ PATH, PATNA-800004**

OUTSOURCING POLICY

1. Introduction.

The world over, banks are increasingly using outsourcing as a means of both reducing cost and accessing specialist expertise, not available internally and achieving strategic aims. 'Outsourcing' may be defined as a bank'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 (including agreements for a limited period), that would normally be undertaken by the bank itself, now or in the future.

In keeping with this international trend, banks in India too have been extensively outsourcing various activities. Such outsourcing activities results in banks being exposed to various risks. Further, the outsourcing activities are to be brought within regulatory purview and the interests of the customers have to be protected.

It is against this background, that Reserve Bank of India has put in place a set of guidelines to address the risks that a bank would be exposed to in lieu of growing outsourcing activity and to ensure that the bank concerned and Reserve Bank of India have access to all books, records and information available with the service provider. The guidelines also cover issues relating to safeguarding of customer interests. In terms of RBI any work done by any outside agency/firm etc is an outsourced activity. Business segment typically outsourced include work area under Information Technology, Housekeeping services, Security, Financial Inclusion, card product and professional services in which qualified personals are required to assist. Moreover, audit-related assignments to Chartered Accountant firms will continue to be governed by the instructions/policy as laid down by the Department of Banking Supervision of RBI. Based on these guidelines this policy is formulated.

Typically, outsourced financial services include application processing (loan origination, credit card), document processing, marketing and research, supervision of loans, data processing and back office related activities etc.

The Joint Forum, a tripartite body comprising Basel Committee on Banking Supervision, International Organization of Securities Commission and International Association of Insurance Supervisors, had issued guidelines on outsourcing in financial services in February, 2005. Internationally, several countries like USA, UK, Germany, Hong Kong, Australia and Singapore, have put in place, guidelines on outsourcing in financial services. Based on these international best practices, Reserve Bank of India has now issued certain guidelines for outsourcing in financial services.



