

Max Life Pension Fund Management Limited Outsourcing Policy

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1. PRINCIPLES

With a view to ensure that company's follow prudent practices on management of risks arising out of their Outsourcing arrangements to Outsourcing Service Providers in order to prevent negative systemic impact as well as to protect the interest of the annuitant's, the Pension Fund Regulatory and Development Authority ("PFRDA") has issued Guidelines on Outsourcing of Activities by Pension Funds issued under Section 14 (2) (b) of the Pension Fund Regulatory and Development Authority Act read with Regulation 43 and Regulation 12(1) of the PFRDA (Pension Fund) Regulations 2015 effective from 09th October, 2017. These guidelines are issued to clarify the core and non-core activities (mentioned under Regulation 12(1) of the Pension Fund Regulations) in relation to the activities performed by a pension fund registered by this Authority and shall be effective from 09th October, 2017. These guidelines shall be enforced and complied with by the pension funds at all times and any failure/deviation noticed shall be dealt with in accordance with the provisions of the PFRDA Act, 2013 and the PFRDA (Pension Fund) Regulations, 2015.

2. DEFINITIONS, PURPOSE AND SCOPE OF THE POLICY

2.1. Definitions

"Outsourcing" is defined as the use of third party services by the Company to perform activities that would normally be undertaken by the Company, either now or in future, but does not include services which are generally not expected to be carried out internally by the insurers such as legal services, banking services, courier services, medical examination, forensic analysis. **"Outsourced" or "Outsource"** is to be construed accordingly.

"Group" is defined as two or more individuals, association of individuals, firms, trusts, trustees or bodies corporate, or any combination thereof, which exercises, or is established to be in a position to exercise, significant influence and / or control, directly or indirectly, over any Associate as defined in Accounting Standard (AS), body corporate, firm or trust, or use of common brand names, Associated persons, as may be stipulated by IRDAI, from time to time.

Explanation: Use of common brand names in conjunction with other parameters of significant influence and / or control, whether direct or indirect shall be reckoned for determination for inclusion as forming part of the group or otherwise.

"Related Party" means as defined under Section 2(76) of Companies Act, 2013.

"Outsourcing Service Provider" means a third party service provider who carries out the Outsourced activities for the Company.

"Outsourcing Agreement" means a written agreement entered into between the Company and Outsourcing Service Provider, outlining the terms and conditions for services which may be rendered by the Outsourcing Service Provider.

"Material Outsourcing" means the outsourcing arrangements which are assessed as material based on the factors described in Section 6 of this Policy.

"Standard Operating Procedure" or "SOP" shall mean a procedure manual with details of the manner in which any Outsourcing activity can be requested for, evaluated, approved, implemented and monitored by the Company.

Capitalized words not defined herein shall bear the same meanings respectively assigned to them in the Outsourcing Regulations.

2.2 Purpose of the Policy

Outsourcing of activities is a recognized and commonly used business practice worldwide. It is considered to be an effective way of improving the quality of services given Outsourcing Service Provider's core expertise of optimally utilizing resources, reducing cost, facilitating scalability and enabling management of a company to focus on its core and critical functions and processes, without compromising any of its legal or statutory obligations.

In that light, the Policy seeks to provide a framework for enabling Outsourcing of eligible activities through sound assessment and management of risks, including quality of services; cost-benefit analysis; evaluation of the Outsourcing Service Provider; ensuring effective oversight; protection of confidentiality of data and adequate due diligence in order to achieve functional and commercial efficiencies within the boundaries of law and regulations while upholding annuitant's interests.

The Company shall not Outsource any activity unless the same has been approved by the Outsourcing Committee or risk management committee and in compliance with this policy.

2.3. Scope of the Policy

This Policy applies to all departments and functions of the Company which seek to Outsource services to Outsourcing Service Provider.

3. REGULATORY FRAMEWORK

The following guidelines/ regulations constitute the regulatory framework with regard to Outsourcing activities by Pension Fund:

- PFRDA's Guidelines on outsourcing of activities by Pension Funds issued on 09th October, 2017;

including any change/ modification/ amendment or any clarification(s) issued by PFRDA from time to time.

4. CATEGORIES OF OUTSOURCING ACTIVITIES

Outsourcing Regulations envisage broadly two categories: -

- A. Core activities;
- B. Non-core activities;

The Pension Funds are prohibited from outsourcing any of their core activities and which includes the following:

- i. Investment and related functions
- ii. Fund Management including NAV calculations.

All integral components of the above activities shall be treated as Core Activities.

The Company will not be outsourcing any of their core activities and compliance functions.

Please refer **Annexure-I** for the Indicative list of core and non- core activities

5. PROCESS OF OUTSOURCING OF ACTIVITY

STEP1. Assessment for Outsourcing an activity

Any proposal to Outsource an activity must be considered in accordance with this Policy, the following steps are to be undertaken before making a decision to Outsource an activity:

1. *Businesscase:* A business case shall be approved by the Head of Department of relevant Business Team, documenting the rationale for Outsourcing, alternatives, cost benefit analysis, the potential benefits of outsourcing against risks that may arise, having regard to all relevant matters including short-term (e.g. temporary service disruptions) and long-term (e.g. impact on business continuity) implications.
2. *Cost Benefit Analysis (CBA):* CBA shall be carried out by comparing the net present value of the activity or project's costs with the net present value of its benefits. The broad parameters for such analysis would be comparison of options available, ensuring that the expenditure is beneficial to the Company with sufficient returns, ensuring an optimal allocation of resources.

STEP 2. Selection of Outsourcing Service Provider

The selection of an Outsourcing Service Provider by Procurement Department and concerned Business Team shall be guided by the following factors:

- a. The ability and capability of the Outsourcing Service Provider to perform services.
- b. The competitiveness of the rates quoted and additional services offered, if any.
- c. The aggregate exposure to a particular Outsourcing Service Provider, in case the Company Outsources various functions to the same Outsourcing Service Provider.
- d.

STEP 3. Due Diligence of Outsourcing Service Provider

A transparent and well documented process for conducting due diligence of an Outsourcing Service Provider shall be followed by respective Business process owner(s). The parameters for due diligence are detailed below:

- a) Assessing the experience and capability of the Outsourcing Service Provider to deploy the required standards, while performing outsourced activities.
- b) Its Information security and internal controls;
- c) Business continuity management;
- d) Whether the activity is proposed to be sub-contracted to any other entity or individual;
- e) Whether the Outsourcing Service Provider is a Related Party/ Group entity of the Company or any of its Insurance Intermediaries;

STEP 4. Confidentiality and Security

- a. The respective Business process owner and Information Security Team shall ensure that the Outsourcing Service Provider's security policies, procedures and controls are robust and in place to

ensure protection of confidentiality and security of annuitant's information, even after the agreement terminates.

- b. The respective Business process owner shall ensure that the data or information parted to any Outsourcing Service Provider under the Outsourcing Agreement(s) remains confidential.
- c. In the event of termination of the Outsourcing Agreement, the respective Business process owner shall ensure that the customer data, if shared, is retrieved from the Outsourcing Service Provider and that there is no further use of customer data, if shared, by the Outsourcing Service Provider.

STEP 5. Inspection and Audit

The Company shall conduct periodic inspection and/ or audit on the Outsourcing Service Providers either by its internal auditors or by Chartered Accountant firms appointed by the Company to examine their compliance to Outsourcing Agreements.

Compliance Team shall take measures to arrest deficiencies noticed, if any, in an inspection and/or audit report.

6. Outsourcing Agreements

Outsourcing arrangements shall be governed by a clearly defined and legally binding written contract between the pension fund and each of the third parties, the nature and detail of which shall be appropriate to the materiality of the outsourced activity in relation to the ongoing business of the company.

Care shall be taken to ensure that the outsourcing contract:

- a. clearly defines what activities are going to be outsourced, including appropriate service and performance levels;
- b. The terms of such contract shall be in consonance with and be not in derogation of any provisions of the PFRDA Act, rules, regulations, guidelines and directions issued by the Authority.
- c. provides for mutual rights, obligations and responsibilities of the pension fund and the third party, including indemnity by the parties;
- d. provides for the liability of the third party to the pension fund for unsatisfactory performance/other breach of the contract;
- e. provides for the continuous monitoring and assessment by the pension fund of the third party so that any necessary corrective measures can be taken up immediately, i.e., the contract shall enable the pension fund to retain an appropriate level of control over the outsourcing and the right to intervene with appropriate measures to meet legal and regulatory obligations;
- f. has unambiguous confidentiality clauses to ensure protection of proprietary and customer data during the tenure of the contract and also after the expiry of the contract;
- g. specifies the responsibilities of the third party with respect to the IT security and contingency plans, insurance cover, business continuity and disaster recovery plans, force majeure clause, etc.;
- h. provides for preservation of the documents and data by third party;
- i. provides for the mechanisms to resolve disputes arising from implementation of the outsourcing contract;
- j. provides for termination of the contract, termination rights, transfer of information and exit strategies including clauses that such contract shall be brought to an end upon a direction received either from the Authority or NPS Trust, as the case may be;
- k. addresses additional issues arising from country risks and potential obstacles in exercising oversight and management of the arrangements when pension fund outsources its activities to foreign third

party. For example, the contract shall include choice-of-law provisions and agreement covenants and jurisdictional covenants that provide for adjudication of disputes between the parties under the laws of a specific jurisdiction;

- l. neither prevents nor impedes the pension fund from meeting its respective regulatory obligations, nor the regulator from exercising its regulatory powers; and
- m. Provides for the pension fund and /or the regulator or the persons authorized by it to have the ability to inspect, access all books, records and information relevant to the outsourced activity with the third party.
- n. Under no circumstances any data or documents pertaining to NPS shall lie with the third party post extinguishment of contract, in any manner.
- o. None of the members/officers/trustees of either the Authority or NPS Trust, shall be liable to any third party in relation to any conduct or action on the part of Pension Fund affecting the rights interse the PF and such third party.

Further, the Company shall ensure that the outsourcing service provider shall not sub-contract the whole or a substantial portion of the Outsourced activity. Where subcontracting is allowed partially it should be with the prior consent of the Pension Fund and the additional risk which flows due to subcontracting shall be factored in at the time of due diligence.

7. LEGAL AND REGULATORY OBLIGATIONS

- I. Company shall ensure that outsourcing arrangements do not,
 - a) diminish their ability to fulfill their obligations to NPS Trust and the PFRDA
 - b) impede effective supervision by the PFRDA
 - c) result in their internal control, business conduct or reputation being compromised or weakened
- ii) The Guidelines apply irrespective of whether the outsourcing arrangements are entered into with an affiliated entity within the same group as the Pension Fund, or an outsourcing service Provider external to the group or the one who has been given subcontract
- iii) Outsourcing shall not diminish the obligations of a Pension Fund and those of its Board and Senior Management to comply with the relevant law/s and guidelines. The Pension Fund is ultimately accountable for all acts of commission and omission of the outsourcing service Providers. The Pension Fund's liability shall not in any way be restricted or limited by way of outsourcing.
- iv) All the outsourcing service providers engaged by Pension Funds are subject to the provisions of the PFRDA Act, 2013, Rules, PF regulations 2015, Guidelines and any other orders issued there under.

8. CONTINGENCY PLANS

- i) Company shall establish and maintain adequate contingency plans where the outsourced activity is material. These include disaster recovery plans and backup facilities to support the continuation of an outsourced activity with minimal business disruption in the event of reasonably foreseeable events that affect the ability of an outsourcing service provider to continue providing the service.
- ii) The contingency plans should be appropriate to the potential consequences of a business disruption resulting from problems at the outsourcing service provider and should consider contingency plans maintained by the outsourcing service provider and their coordination

with the Pension Fund's own contingency arrangements. In particular, contingency plans should ensure that the Pension Fund can readily access all the records necessary to allow it to sustain business operations, meet statutory obligations, and provide any information relating to the outsourced activity as may be required by the PFRDA.

- iii) Contingency plans should also be regularly reviewed and tested to ensure that they remain robust, particularly under changing operating conditions.

9. MAINTENANCE OF RECORDS

- I. In respect of all outsourcing arrangements, Pension Funds shall ensure that adequate documentation is maintained to support the Pension Funds satisfaction of the expectations in these Guidelines.
- II. Such documentation shall be preserved for five years from the end of the outsourcing contract period by the Pension Funds.

10. REPORTING REQUIREMENTS

REGULATORY:

- I. Awarding contract first time: It should be reported to NPS Trust within 30 days from the date of finalization of the contract.
- II. Subsequent reporting: All the activities that are outsourced by a Pension Fund shall be reported to the Authority on annual basis (within 45 days from the end of the financial year) in the below given format:(an undertaking may also be taken that the activities outsourced and the vendors to whom outsourced does not in any way is a breach of PFRDA Act/ PF regulations/ agreement with NPST and any other guidelines issued there under)

NON-REGULATORY:

- III. The performance of the third party service provider with whom the company enters into an Outsourcing agreement shall be monitored on an ongoing basis, reviewed annually and reported to the Board of the company at least once in a year.

11. POLICY OWNERSHIP AND CONSEQUENCE MANAGEMENT

The Policy shall be owned by the Compliance Officer. Please contact Compliance Officer for any clarifications with respect to this Policy. Any breach of the Policy by an employee shall warrant necessary disciplinary action as per the Company's Employee Disciplinary Action Policy.

Annexure-I

S.No.	Activities	Core/ Non-Core
1	Investment function and compliance	Core
2	Regulatory reporting	Core
3	Fund and Portfolio Management	Core
4	Trade confirmation and settlement	Core
5	Fund Accounting including NAV calculations	Core
6	Proxy - Voting decision making	Core
7	Banking and Treasury	Core
8	Risk Assessment- Any activities having a significant impact on its risk management	Core
9	All investment and fund deployment activities as mentioned in PFRDA (PF) regulation	Core
10	Market Research, Stock selection & recommendation, Deal Execution & Order Placement	Core
11	Broker empanelment & review	Core
12	Public disclosure of information	Core
13	Advisory services (support function)	Non-Core
14	Legal	Non-Core
15	Training	Non-Core
16	Billing services	Non-Core
17	Information technology support system (only software development and hardware)	Non-Core
18	Safekeeping of the records with respect to record retention policy of the entity	Non-Core
19	Administrative support services	Non-Core
20	MIS reporting, financial accounts	Non-Core