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RBI releases draft Guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by NBFCs

The Reserve Bank of India has released on its website today, the [draft Guidelines](#) on Managing Risks and Code of Conduct in Outsourcing of Financial Services by NBFCs for seeking comments/ views from interested parties and general public. The suggestions/ comments on the draft guidelines may be [emailed](#) or sent by post to the Chief General Manager, Department of Non-Banking Regulation, Reserve Bank of India, Central Office, 2nd Floor, Centre-1, World Trade Centre, Cuffe Parade, Colaba, Mumbai-400005 on or before May 8, 2015.

Background

Financial institutions are increasingly outsourcing some of their operations as a means to access specialist expertise, not available internally, and to reduce operational costs. 'Outsourcing' may be defined as a Financial Institution'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 or for a limited period of time, that would normally be undertaken by the financial institution itself. Outsourcing involves several risks which need to be managed. It is observed that Non-Banking Financial Companies (NBFCs) also extensively outsource some of their operations. Taking into consideration the need to put in place appropriate safeguards for addressing those risks, and in compliance with the recommendations of the Financial Sector Legislative Reforms Commission (FSLRC), it has been decided to lay down a framework for outsourcing for NBFCs.

Applicability

These guidelines are applicable to all NBFCs including Core Investment Companies and Primary Dealers. It may be noted that it is entirely for the NBFCs to take a view on the desirability of outsourcing a permissible activity related to financial services having regard to all relevant factors, including the commercial aspects of the decision and the risks involved. However, should an NBFC, in its own judgment, decide to outsource a financial services activity, necessary safeguards for addressing the risks inherent in such outsourcing should be put in place, as detailed in these guidelines.

The final guidelines will be issued after taking into consideration the feedback, comments and suggestions on the draft guidelines.