

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:1339
ANSWERED ON:18.07.2014
OUTSOURCING OF BANKING SERVICES
Patel Smt. Jayshreeben

Will the Minister of FINANCE be pleased to state:

- (a) whether the Government has issued / proposes to issue guidelines regarding outsourcing of banking services;
- (b) if so, the details thereof; and
- (c) if not, the reasons therefor?

Answer

FINANCE MINISTER (SHRI ARUN JAITLEY)

(a) to (c): Reserve Bank of India (RBI) being the regulator of the banks, has issued a circular dated November 3rd, 2006 on guidelines on "Managing Risks and Code of Conduct in Outsourcing of Financial Services by Banks" laying down a framework for managing the attendant risks in outsourcing of financial services by banks. In terms of the said guidelines, banks are not permitted to outsource core management functions including internal audit, compliance and decision-making functions like determining compliance with Know Your Customers (KYC) norms for opening deposit accounts, according sanction for loans and management of investment portfolio. Further, it is entirely for the banks 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. However, should a bank, 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 the aforementioned guidelines. Moreover, the outsourcing of any activity by a bank does not diminish its obligations, and those of its Board and senior management, who have the ultimate responsibility for the outsourced activity. Also outsourcing, whether the service provider is located in India or abroad, should not impede or interfere with the ability of the bank to effectively oversee and manage its activities nor should it impede the Reserve Bank of India in carrying out its supervisory functions and objectives.