

**RBI master direction on IT outsourcing activities**

The banking and financial sector is the backbone of any economy. In India, the banking and financial services sector is digitally evolved and uses information technology ('IT') services extensively to support its business models, products and services offered to its customers. The RBI-regulated entities ('RE') outsource their IT activities to third parties (located in India and abroad) which expose them to various risks.

Recently, RBI has issued master directions to the REs. Accordingly, all the REs entering into outsourcing IT agreements/contracts should comply with these directions as per the below-mentioned timelines:

**1. Existing contracts:**

- a. Where renewal is before 1 October 2023: within 12 months from the issue of guidelines, i.e., by 10 April 2024.
- b. Where renewal date is after 1 October 2023: latest by 10 April 2026.

**2. New contracts:**

- a. Agreements coming into force after 1 October 2023: latest by 10 April 2024
- b. Agreements coming into force after 1 October 2023: immediate effect

**Regulated entities are**

- Banks,
- Non-banking finance companies ('NBFCs'),
- Credit information companies and
- Foreign banks on a 'comply on explain' basis.

Following are the important points which REs need to comply with, in case they have outsourced/intend to outsource their IT services:

1. Put in place a comprehensive Board approved IT outsourcing policy. However, the RE, its board and the senior management will be ultimately responsible for the outsourced activity. (including ensuring a high standard of care in performing the activities).
2. The board of directors ('BOD') of RE needs to ensure that there is no conflict of interest arising out of the third-party arrangements. In case the IT service provider is an entity within the 'Group' the arrangement with such service provider needs to be backed by a board-approved policy. Arm's length price needs to be ensured in all dealings.
3. Service provider can be located in India/abroad – however, the RE must be able to effectively oversee and manage its activities.
4. All the relevant laws/regulations need to be complied with in performing due diligence relating to IT services. The renewal agreements should also be subject to due diligence of the service provider.
5. A clear written agreement between the RE and the IT service providers should be in place and the legal counsel of the RE should vet the terms and conditions of the agreement for its legal effect and enforceability.

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6. A risk assessment framework should be in place to deal with the processes and responsibilities for identification, measurement, mitigation, management, and reporting of risks associated with outsourcing of IT services arrangements.
7. Every RE should ensure that there is no combining of information, documents, records and assets where one service provider acts as an outsourcing agent for two or more REs.
8. RE shall conduct regular audits of its service providers and sub-contractors as regards the outsourced activity. This can be done either through the RE's internal auditors or external auditors.
9. In the case of cross-border outsourcing, the RE shall monitor the government policy of other jurisdictions and take steps to mitigate the country-specific risk.
10. In the case of cloud services, the RE shall ensure that there is an appropriate cloud adoption policy.

It is to be noted that outsourcing of any activity shall not diminish RE's obligations as also of its BOD and senior management, who shall be ultimately responsible for the outsourced activity.

**Weblink** <https://rbidocs.rbi.org.in/rdocs/notification/PDFs/102MDITSERVICES56B33FD530B1433187D75CB7C06C8F70.PDF>

## Therefore

***Digitalisation has changed the business landscape throughout the globe. India's fully digitalised banking and financial sector is at the forefront of financial inclusion. RBI has taken and is continuously taking various positive measures in securing the IT environment to protect the interest of the industry as well as the customers. Adoption of the IT outsourcing policy by way of such a master direction will ensure stringent regulatory control and accountability throughout the financial sector.***