

South Africa

## Guidance Note 5 of 2014: Outsourcing of functions within banks

### Guidance Note 5 of 2014

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## Guidance Note 5 of 2014: Outsourcing of functions within banks

To all banks, branches of foreign institutions, controlling companies, eligible institutions and auditors of banks or controlling companies

[Guidance Note 5/2014](#) issued in terms of section 6(5) of the Banks Act, 1990

Outsourcing of functions within banks

### Executive summary

This guidance note replaces [Guidance Note 3/2008](#) titled “Outsourcing of Functions within Banks”.

Regulation 39 of the Regulations relating to Banks (the Regulations) requires banks, controlling companies and branches of foreign institutions (hereinafter collectively referred to as 'banks') to establish and maintain an appropriate process of corporate governance. This process includes the maintenance of effective risk management processes by a bank. These responsibilities include the continuing management of risk arising from the outsourcing of material business activities and functions.

The purpose of this guidance note is to inform all banks of the potential risks arising from the use of service providers and to provide guidelines on assessing and managing risks pertaining to outsourcing relationships. These guidelines also include the highlighting of the elements of an appropriate risk management programme for service providers.

This Office requires that all outsourcing arrangements involving material business activities and functions entered into by banks be subject to appropriate due diligence, approval and ongoing monitoring by the bank. The risks associated with an outsourcing relationship should be appropriately managed in order to ensure delivery by the bank on its financial and service obligations. The ultimate responsibility for ensuring that the risk surrounding outsourcing relationships are duly managed vests with the relevant bank's board of directors.

### 1. Introduction

- 1.1 This Office recognises that, in general, the outsourcing of certain functions and processes could be beneficial to banks in order to meet the challenges of technological innovation, increased specialisation, cost control, and intensified competition. It is, however, of concern to this Office that the use of service providers may reduce management's direct control over important banking functions, which in turn may increase the risk profile of the bank. The number, interconnectedness, and complexity of outsourcing relationships with both foreign and domestic third parties may increase the risks introduced by these relationships. Furthermore, outsourcing arrangements could also impair this Office's ability to exercise its powers under the Banks Act, 1990 ([Act No. 94 of 1990](#) - the Banks Act), especially when the relevant service-level agreements (SLAs) do not specifically cater therefor.
- 1.2 The use of service providers to perform operational banking functions may present several risks to the bank; some inherent to the outsourced activity itself, whereas others are introduced through the use of a service provider. These risks have to be managed effectively in order not to impact negatively on the bank itself and to reduce any potential impact on the South African banking industry as a whole. The risks may be varied in nature and banks should consider risks such as compliance risk, concentration risk, country risk, credit risk, legal risk, operational risk, reputational risk and strategic risk before entering into and while managing outsourcing arrangements. It is important that the quality of risk management over outsourcing relationships should keep pace with the level of risk and complexity of these relationships. Banks have the flexibility to configure their operations in the way most suited to achieving their corporate objectives; however, it is reiterated that banks' board of directors retains ultimate accountability for all outsourced activities. Furthermore, this Office's supervisory powers should not be constrained, irrespective of whether an activity is conducted in-house, outsourced, or otherwise obtained from a service provider.

## 2. Definitions

- 2.1 For purposes of this guidance note 'outsourcing' is defined as the use of a service provider, whether it is an affiliate within a corporate group or a third party, to perform on a continuing basis a business activity, service, function, or process, which could be undertaken by the bank, on behalf of the bank.
- 2.2 It is important to note that for purposes of this guidance note outsourcing includes the provision of information technology (IT) systems or other IT services.
- 2.3 In instances where functions and activities are outsourced within a particular group of institutions which forms part of a single banking group, it will for purposes of this guidance note be referred to as 'insourcing'.
- 2.4 For the purposes of this guidance note, 'offshoring' refers to the outsourcing by a bank of a material business activity or function associated with its South African business to a service provider who conducts the outsourced activity outside the borders of South Africa. In other words, the service provider may be a registered entity in South Africa, but if the activity is conducted outside of South African borders, it will be seen as offshoring. The opposite also holds true in that an entity not registered in South Africa, but performing the activity in South Africa, such activity is not seen as offshoring. Banks should at all times adhere to all country-specific legislation, both local and foreign, where the outsourcing arrangement crosses international borders, for example with regard to data privacy. Offshoring should not impact on this Office being able to perform its regulatory activities such as on-site reviews of the service provider's operations. In addition, banks should consider that offshoring may grant foreign country supervisors the authority or ability to gain access to the bank's customer information and the implication of such access should be borne in mind while considering offshoring.
- 2.5 For purposes of this guidance note critical functions include activities performed for third parties where failure of such an activity would, directly or indirectly, have a negative impact on the functioning of the real economy and financial stability.
- 2.6 For purposes of this guidance note critical shared services include any activities, whether performed internally, insourced or outsourced, that supports the bank's critical functions and where failure of such a service would lead to a failure or disruption of those critical functions.

## 3. Applicability of this guidance note

- 3.1 This guidance note applies to the outsourcing of material business activities and functions at a bank. A 'material business activity or function' is defined as one that has the potential to have a significant impact on the bank's business operations or its ability to manage risks effectively should it be disrupted. The following factors should be considered in determining the materiality of a business activity or function:
  - a. The financial and operational impact should the business activity or function be interrupted.
  - b. The extent to which the business activity or function has the potential to have an important influence, whether quantitative or qualitative, on a significant line of business of the bank.
  - c. The reputational impact should the service provider fail to perform over a given period of time.
  - d. The cost of the outsourcing arrangement as a percentage of total expenses.
  - e. The degree of difficulty, including the time taken, in finding an alternative service provider or bringing the business activity or function in-house.
  - f. The bank's ability to meet regulatory requirements if there are problems with the service provider.
  - g. Multiple outsourcing agreements are held with one service provider which in totality may be deemed as material to the bank.



- h. The business activity or function affects the supervisory processes followed by this Office.
  - i. The bank's strategic objectives may be hampered by a service provider failure.
  - j. The potential losses to the bank's customers and other affected persons in the event of a service provider failure.
  - k. The affiliation or other relationship between the bank and the service provider.
- 3.2 All outsourcing arrangements should be measured against the materiality criteria set out in the above paragraph. Where a material business activity or function is outsourced the outsourcing arrangement is deemed to be material. This Office acknowledges that outsourcing arrangements will have varying degrees of materiality and expects that the robustness of a bank's management of the outsourcing risk would be in line with the materiality of the arrangement. Material outsourcing arrangements should adhere to all the criteria as set out below in the summary of key requirements in paragraph 5 of this guidance note while also taking into account whether the outsourcing arrangement involves insourcing and/or offshoring.
- 3.3 In general, this Office expects that a bank will design a sufficiently robust risk management programme that applies to all its outsourcing arrangements. The programme should be scalable to the materiality of an outsourcing arrangement and able to apply different requirements depending on the type of outsourcing arrangement. The mitigating controls employed under this programme should be appropriate to the particular outsourcing arrangement.
- 3.4 Significant changes in the volume or the nature of business conducted should cause the bank to reassess its outsourcing arrangements' materiality for compliance with requirements of this guidance note.
- 4. Material business activities and functions**
- 4.1 It is expected that banks will have various and numerous material business activities and functions based on the scope of their business activities and complexity. This guidance note in general expects banks to identify and manage the risks surrounding these material business activities and functions.
- 4.2 This Office views management oversight, governance and risk management as material business functions and does not support the outsourcing of these functions.
- 4.3 This Office views internal audit as a material business function and would not generally support the outsourcing of this function. In certain circumstances, however, this Office may consider applications for prior written approval of the outsourcing of the internal audit function (for example, when the head office of a branch of a foreign bank undertakes the internal audit function or where a bank does not have IT audit resources). This Office will consider submissions for approval of outsourcing arrangements of the internal audit function or parts thereof on a case-by-case basis. Where audit activities are outsourced, senior management should consider the effectiveness of the underlying arrangements and whether it is suitable to rely on an outsourced audit function. A bank is required to have an internal audit function that is independent from the external audit function. Outsourcing internal audit to the current external auditor is therefore not permissible.
- 4.4 It is expected that the IT systems employed by banks in pursuit of achieving their strategic objectives will be wide and varied. This Office views core banking IT systems as well as a bank's financial reporting IT system as material business functions and would prefer that as far as possible these systems not be outsourced. There are, however, circumstances under which this Office would consider applications for prior written approval for the outsourcing of these material business functions on a case-by-case basis.
- 4.5 This Office would like to emphasise that banks should realise the significance of cloud computing initiatives and offshoring of material IT business activities and functions. Banks should notify this Office prior to offshoring material business activities.

- 4.6 This Office views critical functions and critical shared services, as defined above and set out in the respective bank's recovery plan, as material business activities for purposes of this guidance note.

**5. Key requirements for outsourcing of material business activities and functions**

- 5.1 This Office's key requirements are summarised below and include:
- a. Have a board-approved outsourcing policy in place, dealing specifically with the outsourcing of material business activities and functions.
  - b. Have a plan for outsourcing activities, including performing risk assessments surrounding the outsourcing of material business activities and functions.
  - c. Have due diligence processes in place for the selection of service providers.
  - d. Have a legal contract in place for all outsourcing of material business activities and functions with third parties.
  - e. Have a monitoring process in place to manage outsourced material business activities and functions.
  - f. Establish an effective control environment at the bank and ensuring one at the service provider.
  - g. Develop viable contingency and business continuity plans.
  - h. Have administrative measures and reporting in place that facilitate oversight, accountability, monitoring and risk management.
  - i. Be in a position to demonstrate to this Office when requested the steps taken with regard to the verification of a service provider's performance levels.
  - j. Obtain written approval from this Office before outsourcing internal audit as required in regulation 48(1)(c)(i) of the Regulations, core banking IT systems, or the financial reporting IT system.
  - k. Notify this Office at least 20 working days prior to entering into agreements to outsource material business activities or functions other than those requiring prior written approval.
- 5.2 As part of the engagements with this Office banks are expected to provide a comprehensive risk assessment and the risk mitigation strategies in place to address the risks identified. This would typically include an assessment of the specific arrangements underlying the services offered, the service provider, the location from which the services are to be provided and the criticality and sensitivity of the assets involved. The risks should be periodically reassessed in line with the bank's risk management framework. This Office may request additional information where it considers it necessary in order to further assess the impact of the outsourcing arrangement on the bank's risk profile.
- 5.3 In accordance with the provision of regulation 38(4)(e) of the Regulations, if, in this Office's view, an outsourcing agreement involves risks that the bank is not managing appropriately, this Office may require the bank to make alternate arrangements for the outsourced activity or function as soon as reasonably possible. This Office acknowledges that the activities necessary to implement an effective outsourcing risk management programme can vary based on the scope and nature of a bank's outsourced activities.
- 5.4 As part of this Office's requirements related to recovery plans, banks must provide detail and guidance in its recovery plan on:
- a. the outsourcing of material business activities;
  - b. the effect of recovery on the outsourced material business activities;
  - c. the effect of the outsourced material business activities on recovery; and

- d. the actions to be taken to facilitate the continuation of the outsourced material business activities during recovery of the bank or the failure of the service provider.

## 6. Additional guidance surrounding key requirements

### 6.1 Board and senior management oversight and other related responsibilities

- 6.1.1 As prescribed in regulation 39(1) of the Regulations the board of directors of a bank is ultimately responsible for establishing corporate governance within the bank and they may appoint supporting committees to assist it with its responsibilities. In line with regulation 39(3) of the Regulations these responsibilities include the continuing management of risks such as risk arising from the outsourcing of material business activities and functions as specified in regulation 39(3)(p) of the Regulations. In accordance with regulation 39(4) of the Regulations the bank must have comprehensive risk management processes, practices and procedures, as well as board approved policies in place.
- 6.1.2 The board retains ultimate responsibility for the outsourcing of a material business activity or function undertaken. Although outsourcing a business activity or function may result in the service provider having day-to-day managerial responsibility for the activity, the bank is responsible for complying with all prudential requirements that relate to the outsourced business activity or function. The use of service providers also does not relieve the board of directors and senior management of their responsibility to ensure that outsourced activities are conducted in a safe and sound manner and in compliance with other applicable legislation.
- 6.1.3 In its assessment of a proposed outsourcing arrangement, the management of a bank should analyse the impact of such an arrangement and take into account the factors that determine the scope of the arrangement. The board should approve contracts with third parties that involve material business activities or functions.
- 6.1.4 Banks' senior management is responsible for ensuring that the outsourcing of material activities and functions is appropriately executed, including overseeing the development and implementation of an appropriate risk management and reporting programme. Senior management should ensure ongoing monitoring of service providers, respond to issues when identified, and escalate significant issues to the board. Outsourcing arrangements that do not meet expectations or no longer align with the bank's strategic goals, objectives, or risk appetite, should be terminated. Management also has to ensure that this Office and other persons, such as the banks' external auditors, will have access to required information to enable them to exercise their duties under the Banks Act and other relevant legislation.

### 6.2 Outsourcing policy

- 6.2.1 The summary of key requirements listed in paragraph 5 of this guidance note does not constitute a complete list of considerations for all outsourcing arrangements, but only what is included in this Office's key requirements for the outsourcing of material business activities and functions. Banks' management should, however, be satisfied that when business activities are outsourced, all decisions and information flows pertaining to such outsourced activities are covered by an overarching internal policy which has been approved by the board. In line with regulation 39(4) of the Regulations the outsourcing policy should govern how banks identify, assess, manage, mitigate and report on risks associated with outsourcing to ensure that it can meet its respective financial and service obligations. The policy should also address proper structures, controls and systems, and other necessary factors to ensure that the standard of outsourced activities or functions is of a similar standard as activities or functions that are performed internally. Furthermore the policy should address different forms of outsourcing, specifically offshoring and insourcing, as well as the materiality assessment for outsourcing arrangements, including processes for determining materiality and the materiality factors. Banks should disseminate the policy to all relevant business units, and should verify compliance thereto.

- 6.2.2 The outsourcing policy should establish an outsourcing risk management programme that addresses risk assessments and due diligence, standards for contract provisions and considerations, ongoing monitoring of service providers, and business continuity and contingency planning. The programme should include a statement of principles on the bank's outsourcing philosophy, the basis for decision making, and the parameters for controlling outsourcing risks. The programme should address integration of outsourcing arrangements within the bank, the importance and adequacy of internal expertise and management frameworks to oversee and manage the outsourced activity and the relationship with the service provider, and the business case for outsourcing a significant business activity or function.

### 6.3 Planning and risk assessments

- 6.3.1 Before entering into an outsourcing relationship, senior management should develop a plan to manage the relationship. The management plan should be proportionate to the level of risk and complexity of the service provider relationship. The plan should, amongst others, discuss the risks inherent in the business activity or function, outline the strategic purposes in outsourcing, assess the complexity of the arrangement, include a cost versus benefit analysis, consider the impact on other strategic initiatives, consider the impact on customers, consider potential information security implications, include the bank's contingency plans and assess the legislative requirements involved.
- 6.3.2 Risk assessment of a business activity or function and the implications of performing the activity in-house or having the activity performed by a service provider are fundamental to the decision on whether or not to outsource. The bank should consider whether qualified and experienced service providers are available to perform the service on an ongoing basis. Additionally, management should consider the bank's ability and expertise to provide appropriate oversight and management of the relationship with the service provider. The risk assessment should be updated as part of monitoring and managing the outsourcing relationship. The bank should update its risk mitigation plans, where appropriate, based on the results of the risk assessment.

### 6.4 Due diligence and selection

- 6.4.1 The management of a bank should ensure that the particular service provider is committed to providing, and is able to provide, the required service at agreed levels for the duration of the arrangement. A bank should conduct an evaluation of and perform the necessary due diligence on a prospective service provider prior to entering into an outsourcing agreement. Factors in considering the depth and formality of the due diligence performed include the risks involved, scope, complexity, and materiality of the business activity or function, and the reputation and industry standing of the service provider.
- 6.4.2 Technical experts and key stakeholders should be engaged throughout the due diligence process and should be included in the review and approval process as needed. Service provider factors to be considered during a due diligence exercise include:
- a. Business background and reputation.
  - b. Conflicting contractual arrangements with other persons.
  - c. Strategy and goals.
  - d. Fee structure and incentives.
  - e. Financial performance and condition.
  - f. Human resource management.
  - g. Incident reporting and management programmes.
  - h. Information security.

- i. Insurance coverage.
  - j. Jurisdictional issues and sovereign risks (cross border activities).
  - k. Legal and regulatory compliance.
  - l. Management of information systems.
  - m. Operations and internal controls.
  - n. Physical security.
  - o. Qualifications, backgrounds, and reputations of company principals.
  - p. Reliance on subcontractors.
  - q. Resilience.
  - r. Risk management.
- 6.4.3 A bank should be able to demonstrate to this Office that in assessing its outsourcing options for a material business activity or function it has done the following:
- a. Prepared and considered an appropriate business case.
  - b. Undertaken a tender or other selection process for service providers.
  - c. Undertaken a due diligence review of the chosen service provider.
  - d. Involved the board, board subcommittee, or senior manager with delegated authority from the board in approving the agreement.
  - e. Considered all the matters for inclusion in the outsourcing contract.
  - f. Established procedures for monitoring performance under the outsourcing agreement on a continuing basis.
  - g. Addressed the renewal process for outsourcing agreements and how the renewal will be conducted.
  - h. Developed contingency plans that would enable the outsourced business activity or function to be provided by an alternative service provider or brought in-house if required.
- 6.4.4 A bank should be able to demonstrate to this Office that, in assessing its insourcing options, it has taken into account the following:
- a. The changes to the risk profile of the business activity or function that arises from insourcing the activity and how this changed risk profile is addressed within the bank's risk management framework.
  - b. That the insourcing service provider has the ability to conduct the business activity of function on an ongoing basis.
  - c. The required monitoring procedures to ensure that the insourcing service provider is performing effectively and how potential inadequate performance would be addressed.
  - d. Contingency and business continuity management issues should the insourced activity need to be brought in-house.
  - e. Considered all relevant matters for inclusion in an insourcing contract.

## 6.5 Outsourcing contract

6.5.1 The importance of a comprehensive outsourcing agreement, including SLAs cannot be overemphasised and all outsourcing arrangements should be contained in a documented, legally binding agreement or contract. The contract and SLAs should be reviewed by the bank's legal counsel before being signed and the outsourcing agreement may not start before the contract is signed by all parties. The management of the bank should ensure that written agreements exist for all outsourced functions and activities.

6.5.2 The contract and SLAs should, at a minimum, include the following aspects:

- a. Access to assets.
- b. Audit (including right to audit) and monitoring procedures.
- c. Business disruption and contingency plans.
- d. Commencement and end dates.
- e. Confidentiality, integrity, privacy and security of information.
- f. Customer complaints.
- g. Default arrangements and termination provisions.
- h. Dispute resolution arrangements.
- i. Establishment and monitoring of performance standards.
- j. Foreign based services.
- k. Incentive compensation review.
- l. Indemnification.
- m. Insurance.
- n. Limits and liability.
- o. Notification of financial difficulty, catastrophic events, and significant incidents.
- p. Offshoring arrangements.
- q. Ownership and license issues.
- r. Pricing and fee structure.
- s. Provisions for amendment.
- t. Provisions for periodic reviews.
- u. Remedies (including early-exit options) for non-performance.
- v. Reporting requirements.
- w. Responsibilities for providing, receiving, and retaining information.
- x. Responsibility for compliance with applicable laws and regulations.
- y. Review provisions.
- z. Rights of regulatory and supervisory authorities, including unrestricted access to information.
- aa. Roles, rights and responsibilities.
- bb. Scope and nature of the arrangement and services to be supplied.

- cc. Service levels and performance requirements.
- dd. Subcontracting.

6.5.3 A bank that outsources a material business activity or function must ensure that its outsourcing agreement includes an indemnity to the effect that any subcontracting by a third-party service provider of the outsourced function will be the responsibility of the third-party service provider, including liability for any failure on the part of the sub-contractor. Some of the aspects listed above may not be applicable in all circumstances; however, banks are expected to address all issues relevant to managing the risks associated with each outsourcing arrangement to a feasible and reasonable extent. All legal documents should be stored in accordance with the bank's legal document management procedures.

6.5.4 A bank that outsources a material business activity or function must further ensure that the outsourcing agreement, specifically any default clause, does not entitle the service provider to unilaterally cancel the agreement in the event that a recovery or resolution action is taken.

## 6.6 Managing and monitoring the relationship

6.6.1 Banks should ensure they have sufficient and appropriate resources to manage and monitor the outsourcing relationship at all times. The type and extent of resources required will depend on the materiality of the outsourced business activity or function. Personnel with oversight and management responsibilities for service providers should have the appropriate level of expertise and stature to manage the outsourcing arrangement. The monitoring approach, including the level and frequency of management reporting, should be risk-based. Monitoring should be ongoing for the duration of the outsourcing relationship and should be an essential component of the bank's risk management process. Because both the level and types of risks may change over the lifetime of outsourcing relationships, a bank should ensure that its ongoing monitoring is adapted accordingly.

6.6.2 Monitoring activities, at a minimum, should include the following:

- a. Verifying that the integrity of the systems and controls of the service provider are maintained.
- b. Remaining aware of any problems, including financial concerns, encountered with a service provider.
- c. Maintaining appropriate levels of regular contact with the service provider, ranging from daily operational contact to senior management involvement.
- d. Regular monitoring of performance under the agreement.
- e. Escalation of issues identified.

## 6.7 Contingency planning and business continuity

6.7.1 Outsourcing of any function always carries a risk that the service provider may fail or may fail to deliver fully in terms of the outsourcing agreement. This could result either in non-performance of the outsourced business activity or function; or potentially the premature cancellation of the outsourcing agreement. Banks' management should accordingly put in place contingency plans to ensure business continuity in the event that a service provider fails to perform the business activity or function. Contingency plans pertaining to outsourced activities should be reviewed regularly, but not less frequently than once a year.

6.7.2 When preparing contingency plans, banks should do the following:

- a. Consider the availability of alternative service providers and hand-over procedures to new service providers.



- b. Determine the procedures that need to be in place to ensure minimum disruption to business when an alternative service provider is sought.
- c. Ensure that the bank has in its possession, or can readily obtain, all records necessary to allow it to sustain business operations, meet its statutory obligations, and provide all information necessary for the bank to meet its mandate.
- d. Ensure that a disaster recovery and business continuity plan is in place for the contracted services and products.
- e. Assess the adequacy and effectiveness of a service provider's disaster recovery and business continuity plan and its alignment to their own plan.
- f. Document the roles and responsibilities for maintaining and testing the service provider's business continuity and contingency plans.
- g. Periodically obtain evidence of testing that the service provider's business continuity and contingency plans are adequate and effective.
- h. Maintain an exit strategy, including a pool of comparable service providers, in the event that a contracted service provider is unable to perform.
- i. Consider requirements should the bank wish to or need to reinstate an outsourced function or activity in-house.

#### **6.8 Documentation and reporting**

6.8.1 Banks should properly document and report on their outsourcing risk management processes. The documentation and reporting should facilitate the accountability, monitoring, and risk management associated with service providers and should include the following:

- a. An up-to-date inventory of all outsourcing relationships which allows different views of the relationships, for instance per business unit or function, materiality or monetary value of the relationship.
- b. Approved plans for the use of third-party relationships.
- c. Due diligence results, findings, and recommendations.
- d. Analysis of costs associated with each outsourcing arrangement, including any indirect costs assumed by the bank.
- e. Executed contracts.
- f. Regular risk management and performance reports required and received from the service provider.
- g. Regular reports to the board and senior management on the results of internal control testing and ongoing monitoring of service providers performing material business activities or functions.
- h. Regular reports to the board and senior management on the results of independent reviews of the bank's overall risk management process.

#### **6.9 Supervisory access to information**

6.9.1 It is of critical importance that a bank's management ensures that the contracts and/or SLAs are structured in such a way as to ensure that the bank is able at all times to provide this Office with the necessary information on the outsourced material business activities or functions regardless of whether the activity or function is outsourced, offshored or insourced. The outsourcing agreement should include the right for this Office to access information, which includes conducting on-site visits at the service provider should this Office consider it necessary in its role as prudential supervisor. Should management become



aware of any possible restriction on the provision of information relating to the outsourced function, this Office has to be informed thereof.

#### 6.10 Assessments of outsourcing

- 6.10.1 The management of a bank should ensure that the bank has processes in place to identify and deal with any weakness in a service provider's performance that may have an adverse impact on the service provided to the bank. This may include access to the service provider by the bank's internal and external auditors, as well as access by external persons conducting independent reviews for assessment by management. The bank's management should ensure that there is capacity to address problems that arise from investigations conducted at the service provider and that appropriate actions are taken when required.
- 6.10.2 A bank's internal audit function should review the bank's material outsourcing business activities to verify that it is in line with its outsourcing policy and should report these results to the board or board audit committee. This Office may request a bank's external auditor, or an appropriate external expert, to provide an assessment of the risk management processes in place with respect to an arrangement to outsource a material business activity or function. Such an assessment could cover areas such as IT systems, data security, internal control frameworks and business continuity plans. Such reports will be paid for by the bank and are to be made available to this Office if and when required.

#### 7. Acknowledgement of receipt

Two additional copies of this guidance note are enclosed for use by your institution's independent auditors. The attached acknowledgement of receipt, duly completed and signed by both the chief executive officer of the institution and the said auditors, should be returned to this Office at the earliest convenience of the aforementioned signatories.