



Monetary Authority of Singapore

GUIDELINES ON OUTSOURCING

ISSUED IN OCTOBER 2004

(Last Updated 1 July 2005)

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1 INTRODUCTION

1.1 While outsourcing can bring cost and other benefits, it may increase the risk profile of an institution due to, for example, strategic, reputation, compliance and operational risks arising from failure of a service provider in providing the service, breaches in security, or inability to comply with legal and regulatory requirements by the institution. An institution can also be exposed to country risk when a service provider is located overseas and concentration risk when there is lack of control by a group of institutions over a common service provider. It is therefore important that an institution adopts a sound and responsive risk management framework in outsourcing.

1.2 These Guidelines¹ on Outsourcing (“these Guidelines”) set out MAS’ expectations of an institution that has entered into outsourcing or is planning to outsource its business activities² to a service provider.

2 APPLICATION OF GUIDELINES

2.1 ***These Guidelines contain prudent practices on risk management of outsourcing.*** These Guidelines do not affect, and should not be regarded as a statement of the standard of care owed by institutions to their customers. The extent and degree to which an institution implements these Guidelines should be commensurate with the nature of risks in, and materiality of, the outsourcing. ***In supervising an institution, MAS will review its implementation of these Guidelines to assess the quality of its risk management systems. MAS is particularly interested in material outsourcing*** which, if disrupted, has the potential to significantly impact an institution’s business operations, reputation or profitability and which may have systemic implications.

2.2 Annex 1 provides examples of outsourcing to which these Guidelines are applicable, and arrangements that are generally not intended to be subject to these Guidelines. These are only examples and are not meant to circumscribe the application of the Guidelines to arrangements that are not listed. Institutions should consider the materiality of outsourcing in applying the Guidelines. It should also not be misconstrued that activities and operations not listed as outsourcing need not be subject to adequate risk management and sound internal controls.

¹ Please refer to MAS’ website (www.mas.gov.sg) for details of the classification of instruments issued by MAS.

² Any reference in these Guidelines to “business activities” of an institution is to be construed as a reference to the business and operational functions and processes of the institution.

2.3 Annex 2 provides broad guidance to institutions in determining how the Guidelines apply to their outsourcing arrangements. Where outsourcing is material, MAS expects the institution to apply all the risk management practices in paragraph 6 of these Guidelines to the arrangements. Any divergence from these Guidelines because of other risk mitigating factors or controls should be clearly documented. For non-material outsourcing, an institution may adapt the practices accordingly for the arrangement. However, ***guidelines on the right of access to information on an institution at the service provider, at paragraphs 6.8 and 6.9, apply for all outsourcing, whether material or non-material.***

2.4 ***An institution should notify MAS when it is planning or has entered into material outsourcing, or plan to vary such outsourcing.*** The institution should expect to engage and demonstrate to MAS their observance with these Guidelines. MAS may require additional measures to be taken by an institution and other supervisory actions, depending on the potential impact of the outsourcing on the institution and the financial system, and also on the circumstances of the case. MAS may also directly communicate with the home and/or host regulator of the institution and its service provider, on their ability and willingness to cooperate with MAS in supervising the outsourcing risks to the institution.

2.5 A self-assessment should be conducted of all existing outsourcing arrangements against these Guidelines. ***Where the outsourcing is material and has not been notified to MAS, the institution should do so in writing, within two months from the date of issue of these Guidelines. Every institution is also expected to rectify the deficiencies identified in the self-assessment no later than one year from the date of issue of the Guidelines.*** Where the rectification concerns an existing contractual agreement, it can be made when the agreements are substantially amended, renewed or extended, whichever is earliest. Nevertheless, if a deficiency identified from the self-assessment process is significant, MAS expects an institution to have in place measures to mitigate the risks in the interim.

2.6 ***MAS should also be notified of any adverse development*** arising in outsourcing that could significantly affect the institution, including any events that could potentially lead to the termination and early exit of the arrangement. ***Any breach of legal and regulatory requirements by the service provider should also be notified to MAS.***

2.7 Notwithstanding paragraph 2.4, MAS may require an institution to modify, make alternative arrangements or re-integrate an outsourcing into the institution where:-

- an institution fails or is unable to implement adequate measures to address the risks and deficiencies arising in its outsourcing in a satisfactory and timely manner;
- adverse developments arise from the outsourcing that could significantly affect an institution; or
- MAS' supervisory powers and ability to carry out its supervisory functions are hindered.

2.8 An institution incorporated in Singapore is expected to also consider the impact of outsourcing arrangements by its branches and any corporation under its control, including those located outside Singapore, on its consolidated operations. MAS expects such an institution to ensure these Guidelines are applied to branches and corporations under their control.

3 DEFINITIONS

3.1 In these Guidelines, unless the context otherwise requires:

“board” or “board of directors” means

(a) in the case of an institution incorporated in Singapore, the board of directors.

(b) in the case of an institution incorporated or established outside Singapore, a management committee or body beyond local management empowered with oversight and supervision responsibilities for the institution in Singapore.

“institution” means any bank licensed under the Banking Act (Cap. 19), any merchant bank approved under the Monetary Authority of Singapore Act (Cap 186), any finance company licensed under the Finance Companies Act (Cap. 108), any insurance company registered under the Insurance Act (Cap. 142), any approved holding company or approved exchange or designated clearing house or Capital Markets Services (CMS) licensee licensed under the Securities and Futures Act (Cap. 289) (SFA), or any public company approved under section 289 of the SFA to act as a trustee for collective investment schemes authorized under section 286 of the SFA.

*[Amended
on 1 July
2005]*

“outsourcing” means an arrangement whereby an institution engages a third party (the “service provider”) to provide the institution with a service that may already or may conceivably be performed by the institution itself and which includes the following characteristics:-

- the institution is dependent on the service on an ongoing basis but excludes services that involve the provision of a finished product;
- the service is integral to the provision of a financial service by the institution and/or the service is provided to the market by the service provider in the name of the institution; and
- it is prohibitive to change the service provider as substitutes are lacking in the market or may only be replaced at significant cost to the institution.

“material outsourcing” means an outsourcing arrangement which, if disrupted, has the potential to significantly impact an institution’s business operations, reputation or profitability;

“service provider”, includes a member of the group to which the institution belongs e.g. its Head Office (HO), parent institution, another branch or related company, or an unrelated party, whether located in Singapore or elsewhere.

4 LEGAL AND REGULATORY OBLIGATIONS

4.1 Outsourcing does not diminish the obligations of an institution, and those of its board and senior management, to comply with relevant laws and regulations in Singapore. Risk management practices should therefore include steps to ensure all relevant laws, regulations, guidelines and other directions, as well as any condition of approval, licensing or registration, continue to be met. MAS’ supervisory powers over institutions and ability to carry out supervisory functions should also not be hindered, whether the service provider is located within Singapore or elsewhere.

4.2 Every institution should conduct its business with integrity and competence. Hence an institution should not engage in outsourcing that results in its internal control, business conduct or reputation being compromised or weakened. An institution has to take steps to ensure that the service provider employs a high standard of care in performing the service as if the activity were not outsourced and conducted within the institution. The institution also needs to maintain the capability and appropriate level of monitoring and control over outsourcing, such that in the event of disruption or unexpected termination of the service, it remains able to conduct its business with integrity and competence.

5 MATERIAL OUTSOURCING

5.1 An institution should assess the degree of materiality in an outsourcing to the institution. The extent and degree to which these Guidelines are implemented is expected to be commensurate with the materiality of the outsourcing. In assessing materiality, MAS recognises that qualitative judgment is involved and the circumstances faced by individual institutions may vary. Factors that an institution should consider include, among others:-

- importance of the business activity to be outsourced, for example, in terms of contribution to income and profit;
- potential impact of the outsourcing on earnings, solvency, liquidity, funding and capital, and risk profile;
- impact on the institution's reputation and brand value, and ability to achieve its business objectives, strategy and plans, should the service provider fail to perform the service;
- cost of the outsourcing as a proportion of total operating costs of the institution;
- aggregate exposure to a particular service provider in cases where the institution outsources various functions to the same service provider; and
- ability to maintain appropriate internal controls and meet regulatory requirements, if there were operational problems faced by the service provider.

Outsourcing of all or substantially all risk management and internal control functions including compliance, internal audit and financial accounting, is to be considered material.

5.2 An institution should undertake periodic reviews of its outsourcing arrangements to identify new material outsourcing risks as they arise. An arrangement which was previously not material may subsequently become material from incremental activities outsourced to the same service provider or an increase in volume or nature of the activity outsourced to the service provider. Material outsourcing risks may also arise when the service provider in a material outsourcing plans to sub-contract³ the service or makes significant changes to its sub-contracting arrangements.

³ Sub-contracting is where the service provider of an outsourced activity further contracts out that activity or a sub-component of that activity to a third party.

5.3 An institution should consider materiality at both the institution and on a consolidated basis, i.e. together with the institution's branches and corporations under its control

6 RISK MANAGEMENT PRACTICES

6.1 Role Of The Board And Senior Management

6.1.1 The board and senior management of an institution retain ultimate responsibility for the effective management of risks arising from outsourcing. While an institution may delegate its day-to-day operational duties to the service provider, the responsibilities for effective due diligence, oversight and management of outsourcing and accountability for all outsourcing decisions, continue to rest with the institution, its board and senior management. The board, or a committee delegated by it, is responsible for:-

- approving a framework to evaluate the risks and materiality of all existing and prospective outsourcing and the policies that apply to such arrangements;
- laying down the appropriate approval authorities for outsourcing depending on the nature of risks in, and materiality of the outsourcing;
- assessing management competencies for developing sound and responsive outsourcing risk management policies and procedures as commensurate with the nature, scope and complexity of the outsourcing arrangements;
- undertaking regular review of outsourcing strategies and arrangements for their continued relevance, and safety and soundness; and
- reviewing a list of all material outsourcing and relevant reports on outsourcing.

6.1.2 Senior management is responsible for:-

- Evaluating the risks and materiality of all existing and prospective outsourcing, based on the framework approved by the board;

- Developing and implementing sound and prudent outsourcing policies and procedures commensurate with the nature, scope and complexity of the outsourcing;
- Reviewing periodically the effectiveness of policies and procedures;
- Communicating information pertaining to material outsourcing risks to the board in a timely manner;
- Ensuring that contingency plans, based on realistic and probable disruptive scenarios, are in place and tested; and
- Ensuring that there is independent review and audit for compliance with set policies.

6.1.3 For an institution incorporated or established outside Singapore, the functions of the board described in paragraph 6.1.1 may be delegated to and performed by a management committee or body beyond local management that is empowered to functionally oversee and supervise the local office (e.g. a regional risk management committee). The functions of senior management in paragraph 6.1.2 lie with local management. Local management of an institution incorporated or established outside Singapore should continue to take necessary steps to enable it to discharge its obligations to comply with the relevant laws and regulations in Singapore, including expectations under these Guidelines. Local management cannot abrogate its governance responsibilities to run the institution in a prudent and professional manner.

6.2 Evaluation Of Risks

6.2.1 To satisfy themselves that an outsourcing does not result in the internal control, business conduct or reputation of an institution being compromised or weakened, its board and senior management would need to be fully aware of and understand the risks in an outsourcing and their impact on the institution. A framework for systematic risk evaluation should be established and it should include the following steps:-

- Identification of the role of outsourcing in the overall business strategy and objectives of the institution, and its interaction with corporate strategic goals;
- Comprehensive due diligence on the nature, scope and complexity of the outsourcing to identify the key risks and risk mitigation strategies;

- Analysis of the impact of the arrangement on the overall risk profile of the institution, and whether there are adequate internal expertise and resources to mitigate the risks identified; and
- Analysis of risk-return on the potential benefits of outsourcing against the vulnerabilities that may arise, ranging from the impact of temporary disruption to that of an unexpected termination in the outsourcing, and whether for strategic and internal control reasons, the arrangement should not be entered into.

6.2.2 Such evaluations should be performed when an institution is planning to enter into an outsourcing arrangement, and also re-performed periodically on existing arrangements, as part of the outsourcing approval and strategic planning or review processes of the institution.

6.3 Capability of Service Providers

6.3.1 In considering, renegotiating or renewing an outsourcing arrangement, an institution should subject the service provider to appropriate due diligence to assess its capability to employ a high standard of care in performing the service and comply with its obligations under the outsourcing agreement. The due diligence should take into consideration qualitative and quantitative, financial, operational and reputation factors. Compatibility and performance should be emphasized in the assessment. Where possible, the institution should obtain independent reviews and market feedback on the service provider to supplement its own findings.

6.3.2 The due diligence should involve an evaluation of all available information about the service provider such as:-

- its experience and competence to implement and support the proposed activity over the contracted period;
- its financial strength and resources (the due diligence should be similar to a credit assessment of the viability of the service provider based on reviews of business strategy and goals, audited financial statements, the strength of commitment of significant equity sponsors and ability to service commitments even under adverse conditions);
- its business reputation and culture, compliance, complaints and outstanding or potential litigation;

- its security and internal controls, audit coverage, reporting and monitoring environment;
- its business continuity management⁴;
- its reliance on and success in dealing with sub-contractors;
- its insurance coverage; and
- its external factors (such as the political, economic, social and legal environment of the jurisdiction in which the service provider operates, and other events) that may impact service performance.

6.3.3 Due diligence undertaken during the selection process should be documented and re-performed periodically as part of the monitoring and control processes of outsourcing. The due diligence process can vary depending on the nature of the outsourcing arrangement e.g. reduced due diligence may be sufficient where no developments or changes have arisen to affect an existing outsourcing arrangement or where the outsourcing is to a member of the group⁵. An institution should ensure that the information used for due diligence evaluation is current and should not be more than 12 months old⁶.

6.4 Outsourcing Agreement

6.4.1 Contractual terms and conditions governing relationships, functions, obligations and responsibilities of the contracting parties in the outsourcing should be carefully and properly defined in written agreements. The detail in these agreements should be appropriate for the nature and materiality of the arrangement. They should also be vetted by a competent authority e.g. the institutions' legal counsel on their legal effect and enforceability.

6.4.2 An institution should ensure that every outsourcing agreement addresses the risks and risk mitigation strategies identified at the risk evaluation and due diligence stages. Each agreement should allow for renegotiation and renewal to enable the institution to retain an appropriate level of control over the outsourcing and the right to intervene with appropriate measures to meet its legal and regulatory obligations. The

⁴ Standards should be commensurate with that expected of the institution as set out in MAS' Business Continuity Management Guidelines. Please see paragraph 6.

⁵ Please see paragraph 6.10.1 on arrangements relating to outsourcing within a group.

⁶ Refer to paragraph 6.8.3.

agreement should also not hinder MAS in the exercise of its supervisory powers over the institution and right of access to information on the institution and the service provider. It should at the very least, have provisions pertaining to:-

- The scope of the outsourcing service;
- Performance standards defined in terms of, for example, service levels and performance targets; service availability, reliability, stability and upgrade;
- Confidentiality and security⁷;
- Business continuity management⁸;
- Monitoring and control⁹;
- Audit and inspection¹⁰;
- Dispute resolution
Agreements should specify the resolution process, events of default, and the indemnities, remedies and recourse of the respective parties in the agreements;
- Default termination and early exit
An institution should have the right to terminate the agreement in the event of default, including circumstances when the service provider undergoes a change in ownership, becomes insolvent, goes into liquidation, receivership or judicial management, whether in Singapore or elsewhere; or when there has been a breach of security, confidentiality or demonstrable deterioration in the ability of the service provider to perform the service as contracted. The minimum period to execute a termination provision should be specified; and
- Sub-contracting
An institution should retain the ability to maintain similar control over its outsourcing risks when a service provider uses a sub-contractor as in its agreement with the service provider. Agreements should have clauses setting out the rules and limitations on sub-contracting. An institution may want to include clauses making the service provider contractually liable

⁷ To refer to paragraph 6.5

⁸ To refer to paragraph 6.6

⁹ To refer to paragraph 6.7

¹⁰ To refer to paragraph 6.8

for the capability of the sub-contractor it selects and for compliance with the provisions in its agreement with the service provider, including the prudent practices set out in these Guidelines, and in particular those relating to security and confidentiality, audit and inspection as well as business continuity management. For material outsourcing arrangements, the sub-contracting of all or substantially all of a service provided, should be subject to prior approval of the institution; and

- Applicable Laws
Agreements should include choice-of-law provisions, agreement covenants and jurisdictional covenants that provide for adjudication of disputes between the parties under the laws of a specific jurisdiction.

6.4.3 Each agreement should be tailored to address additional issues arising from country risks and potential obstacles in exercising oversight and management of the arrangements when outsourcing to a service provider outside Singapore¹¹.

6.5 Confidentiality and Security

6.5.1 As public confidence in financial institutions is a cornerstone in the stability and reputation of the financial industry, it is vital that an institution satisfies itself that the service provider's security policies, procedures and controls will enable the institution to protect confidentiality and security of customer information.

6.5.2 An institution should be proactive in identifying and specifying requirements for confidentiality and security in the outsourcing arrangement. An institution may want take the following steps to ensure that the issue of customer confidentiality is addressed:-

- Address, agree and document the respective responsibilities of the various parties in the outsourcing to ensure the adequacy and effectiveness of security policies and practices, including the circumstances under which each party has the right to change security requirements. It should also address the issue of the party liable for losses in the event of a breach of security and the service provider's obligation to inform the institution;

¹¹ To refer to paragraph 6.9

- Address issues of access and disclosure of customer information provided to the service provider having regard to the institution's obligations under relevant laws and regulations. Customer information should be used by the service provider and its staff strictly for the purpose of the contracted service. Any unauthorized disclosure of the institution's customer information to any other party should be prohibited;
- Disclose customer information to the service provider only on a need-to-know basis and ensure that the amount of information disclosed is commensurate with the requirements of the situation;
- Ensure the service provider is able to isolate and clearly identify the institution's customer information, documents and records and assets to protect the confidentiality of the information. An institution should also ensure that the service provider takes technical, personnel and organisational measures in order to maintain the confidentiality of customer information between its various customers; and
- Review and monitor the security practices and control processes of the service provider on a regular basis, including commissioning or obtaining periodic expert reports on security adequacy and compliance in respect of the operations of the service provider, and requiring the service provider to disclose security breaches.

6.5.3 Confidentiality and security protection should be commensurate with the nature and materiality of the outsourcing. An institution would need to take into consideration any legal or contractual obligation to notify customers of the outsourcing and circumstances under which their information may be disclosed. Banks and merchant banks should also observe the requirements of MAS Notice to Banks 634 or MAS Notice to Merchant Banks 1108 respectively. An institution which provides internet banking services should read these Guidelines in conjunction with MAS' Internet Banking Technology Risk Management Guidelines.

6.5.4 An institution should notify MAS of any unauthorised access or breach of security and confidentiality by the service provider or its subcontractors that affect the institution or its customers.

6.6 Business Continuity Management

6.6.1 An institution should ensure that its business continuity preparedness is not compromised by outsourcing. It is expected to adopt the sound practices and standards contained in the Business Continuity Management (BCM) Guidelines issued by MAS, in evaluating the impact of outsourcing on its risk profile and for effective BCM on an ongoing basis.

6.6.2 In line with the BCM Guidelines, an institution should take steps to evaluate and satisfy itself that the interdependency risk arising from the outsourcing arrangement can be adequately mitigated such that the institution remains able to conduct its business with integrity and competence in the event of disruption, or unexpected termination of the outsourcing or liquidation of the service provider. These should include steps to:-

- Determine that the service provider has in place satisfactory business continuity plans (BCP) commensurate with the nature, scope and complexity of the outsourcing. Outsourcing agreements should contain BCP requirements on the service provider, in particular recovery time objectives (RTO) and resumption operating capacities. Escalation, activation and crisis management procedures should also be clearly defined;
- Proactively seek assurance on the state of BCP preparedness of the service provider. It should ensure the service provider regularly tests its BCP plans and that the tests validate the feasibility of the RTOs and resumption operating capacities. The institution should require the service provider to notify the institution of any test finding that may affect the service provider's performance. The institution should also require the service provider to notify it of any significant changes in the service provider's BCP plans and of any adverse development that could significantly impact the service provided to the institution; and
- Ensure the service provider is able to isolate and clearly identify the institution's information, documents and records, and other assets such that in adverse conditions, all documents, records of transactions and information given to the service provider, and assets of the institution, can be either removed from the possession of the service provider in order to continue its business operations, or deleted, destroyed or rendered unusable.

6.6.3 For assurance on the functionality and effectiveness of its BCP plan, an institution should design and carry out regular, complete and meaningful testing of its plans as commensurate with the nature, scope and complexity of the outsourcing, including risks arising from interdependencies on the institution. For tests to be complete and meaningful, the institution should involve the service provider so as to validate its BCP as well as for assurance on the awareness and preparedness of its own staff. The institution should also base its business continuity considerations and requirements on probable worst-case scenarios of unexpected termination of the outsourcing or liquidation of the service provider. Where the interdependency on an institution in the financial system is high¹², the institution is expected to maintain a higher state of business continuity preparedness. The identification of viable alternatives for resuming operations without incurring prohibitive costs is also essential to mitigate interdependency risk.

6.7 Monitoring and Control of Outsourced Activities

6.7.1 An institution should establish a structure for the management and control of outsourcing. Such a structure will vary depending on the nature, scope and complexity of the outsourced activity. As outsourcing relationships and interdependencies increase in materiality and complexity, a more rigorous risk management approach should be adopted. An institution also has to be more proactive in its relationship with the service provider e.g. having frequent meetings, to ensure that performance levels are upheld. An institution should ensure that outsourcing agreements with service providers contain provisions to address their monitoring and control of outsourced activities.

6.7.2 A structure for effective monitoring and control of material outsourcing would comprise the following:-

- A central record of all material outsourcing that is readily accessible for review by the board and senior management of the institution. Information maintained in the record should include the name and location(s) of the service provider, the value and expiry or renewal dates of the contract, and reviews on the performance of the outsourced arrangement. The record should be updated promptly and form part of the corporate governance reviews undertaken by the board and senior management of the institution, similar to those described in paragraph 6.1;

¹² In MAS' BCM Guidelines, these institutions are referred to as Significantly Important Institutions.

- Multi-disciplinary outsourcing management groups with members from functions including legal, compliance and finance, to ensure that other than technical issues, legal and regulatory requirements are also met. The institution should allocate sufficient resources, in terms of both time and manpower, to the management groups to enable staff to adequately plan and oversee the entire outsourcing effort;
- Establishment of management control groups to monitor and control the outsourced service on an ongoing basis. There should be policies and procedures to monitor service delivery, performance reliability and processing capacity of the service provider for the purpose of gauging ongoing compliance with agreed service levels and the viability of its operations. Such monitoring could be done through the review of reports by auditors of the service provider or audits commissioned by the institution;
- Regular reviews and audits to ensure outsourcing risk management policies and procedures, and these Guidelines, are being effectively complied with¹³; and
- Reporting policies and procedures. Reports on the monitoring and control activities of the institution should be prepared or reviewed by its senior management and provided to its board. The institution should also ensure that any adverse development arising in any outsourced activity is brought to the attention of the senior management of the institution and service provider, or to its board, where warranted, on a timely basis. Actions should be taken by an institution to review the outsourcing relationship for modification or termination of the agreement.

6.7.3 MAS should be informed if there are any adverse developments or non-compliance with legal and regulatory requirements in an outsourcing arrangement.

6.8 Audit and Inspection

6.8.1 Outsourcing should not interfere with the ability of the institution to effectively manage its activities or impede MAS in carrying out its supervisory functions and objectives. Every institution is therefore required

¹³ Refer to paragraph 6.8.2.

to take steps to ensure that outsourcing agreements with the service provider include clauses that allow:-

- The institution to conduct audits on the service provider, whether by its internal or external auditors, or by agents appointed by the institution; and to obtain copies of any report and finding made on the service provider in conjunction with the service performed for the institution; and
- MAS, or any agent appointed by MAS, to access both the service provider and the institution to obtain records and documents, of transactions, and information of the institution given to, stored at or processed by the service provider and the right to access any report and finding made on the service provider¹⁴.

An institution should ensure that these requirements are met in its arrangements with the service provider as well as any sub-contractor that the service provider may engage in the outsourcing, including any disaster recovery and backup service providers.

6.8.2 As a practice, institutions should conduct pre- and post-outsourcing implementation reviews. An institution should also review its outsourcing arrangements periodically to ensure that its outsourcing risk management policies and procedures, and these Guidelines, are effectively complied with. Such reviews should ascertain the adequacy of internal risk management and management information systems established by the institution e.g. assessing the suitability of indicators that evaluate the performance level of the service provider, and highlight any deficiency or breach in the institution's systems of control. This should form part of the procedures for effective monitoring and control of the institution's outsourcing risks, and is to be complemented through audits by the institution's internal or external auditors, or by agents appointed by the institution, provided the appointed persons possess the requisite knowledge and skills to perform the review.

6.8.3 An institution should, at least on an annual basis, review the financial and operational condition of the service provider to assess its ability to continue to meet outsourcing obligations. Such due diligence reviews, which can be based on all available information about the service provider including reports by the service provider's external auditors, should

¹⁴ Banks and merchant banks are reminded of their legal obligations under MAS Notice to Banks 634 and MAS Notice to Merchant Banks 1108 Banking Secrecy – Conditions for Outsourcing, insofar as providing MAS or its agents the right of access to documents, records of transactions, information processed by or stored with the service provider.

highlight any deterioration or breach in performance standards, confidentiality and security, and in business continuity preparedness.

6.8.4 In addition to the annual reviews undertaken to assess the capability of service providers as stated in paragraph 6.8.3, an institution should also periodically commission independent audit and expert assessments on the security and control environment of the service provider¹⁵. Such assessments and reports on the service provider may be performed and prepared by the institution's internal or external auditors, or by agents appointed by the institution. The appointed persons should possess the requisite knowledge and skills to perform the engagement, and be independent of the unit or function performing the outsourced activity.

6.8.5 The scope of reviews in paragraphs 6.8.2, 6.8.3 and 6.8.4 may vary depending on the nature and materiality of the outsourcing. Copies of audit reports should be submitted by the institution to MAS.

6.9 Outsourcing Outside Singapore

6.9.1 The engagement of a service provider in a foreign country exposes an institution to country risk - economic, social and political conditions and events in a foreign country that may adversely affect the institution. Such conditions and events could prevent the service provider from carrying out the terms of its agreement with the institution. In its risk management of such outsourcing, an institution should take into account, at due diligence and on a continuous basis, the government policies and political, social, economic and legal conditions in the foreign country, its ability to effectively monitor the service provider, and to execute its business continuity management plans and exit strategy.

6.9.2 Outsourcing outside Singapore should be conducted in a manner so as not to hinder efforts to supervise or reconstruct the Singapore activities of the institution (i.e. from its books, accounts and documents) in a timely manner. Specifically:-

- An institution should, in principle, enter into arrangements only with parties operating in jurisdictions that generally uphold confidentiality clauses and agreements;

¹⁵ Banks and merchant banks are legally obligated under MAS Notice to Banks 634 and MAS Notice to Merchant Banks 1108 Banking Secrecy – Conditions for Outsourcing, respectively, on the preparation of an independent report on the service provider's control environment in relation to confidentiality of customer information.

- It should not outsource to jurisdictions where prompt access to information by MAS or agents appointed by MAS to act on its behalf, at the service provider, may be impeded by legal or administrative restrictions. An institution must at least commit to retrieve information readily from the service provider should MAS request for such information. The institution should confirm in writing to MAS, the rights of access to the institution's information, reports and findings at the service provider, as set out in paragraph 6.8.1; and
- It should notify MAS if any overseas authority were to seek access to its customer information or if a situation were to arise where the rights of access of the institution and MAS set out in paragraph 6.8.1, have been restricted or denied.

6.9.3 MAS may require additional measures to be taken by an institution and other supervisory actions, depending on the potential impact of the outsourcing on the institution and the financial system, or as circumstances warrant. MAS may also directly communicate with the home or host regulator of the institution and its service provider, on their ability and willingness to cooperate with MAS in supervising the outsourcing risks to the institution. MAS may require an institution to terminate or make alternative outsourcing arrangements if the confidentiality of its customer information or the ability of MAS to carry out its supervisory functions cannot be assured.

6.10 Outsourcing Within a Group

6.10.1 These Guidelines are generally applicable to outsourcing to parties within an institution's group, including its HO or parent institution, another branch or related company, whether located within or outside Singapore. The requirements may be addressed within group-wide risk management policies and procedures. The institution would be expected to be able to provide, when requested, information demonstrating the structure and processes by which its board and senior management discharge their role in the oversight and management of outsourcing risks on a group-wide basis.

6.10.2 Due diligence on an intra-group service provider may take the form of evaluating qualitative aspects on the ability of the service provider to address risks specific to the institution, particularly those relating to business continuity management, monitoring and control, and audit and inspection, including confirmation on the right of access to be provided to MAS to retain effective supervision over the institution, and compliance with local regulatory standards. The respective roles and responsibilities of each office in the outsourcing arrangement should be documented in writing

in a service level agreement or an equivalent document. MAS may require additional measures to be taken by an institution and other supervisory actions, depending on the potential impact of the outsourcing on the institution and the financial system, or as circumstances warrant.

6.11 Outsourcing of Internal Audit to External Auditors

6.11.1 Where the outsourced service is the internal audit function of an institution, there are additional issues that an institution should deliberate upon. One of these is the lack of independence or the appearance of impaired independence, when a service provider is handling multiple engagements for an institution, such as internal and external audits, and consulting work. There is doubt that the service provider, in its internal audit role, would criticize itself for the quality of the external audit or consultancy services provided to the institution. In addition, as operations of an institution are typically complex and involve large transaction volumes and amounts, it should ensure service providers have the expertise to adequately complete the engagement. An institution should address these and other relevant issues before outsourcing the internal audit function.

6.11.2 Before outsourcing the internal audit function to external auditors, an institution should satisfy itself that the external auditor would be in compliance with the relevant auditor independence standards of the Singapore accounting profession.

1 The following are examples of some services that, when performed by a third party, would be regarded as outsourcing for the purposes of the Guidelines although they are not exhaustive:-

- Application processing (e.g. loan origination, credit cards);
- Back office management (e.g. electronic funds transfer, payroll processing, custody operations, quality control, purchasing, maintaining the register of participants of a collective investment scheme (CIS) and sending of accounts and reports to CIS participants);
- Claims administration (e.g. loan negotiations, loan processing, collateral management, collection of bad loans);
- Document processing (e.g. cheques, credit card and bill payments, bank statements, other corporate payments);
- Information system management and maintenance (e.g. data entry and processing, data centres, facilities management, end-user support, local area networks, help desks);
- Investment management (e.g. portfolio management, cash management);
- Manpower management (e.g. benefits and compensation administration, staff appointment, training and development);
- Marketing and research (e.g. product development, data warehousing and mining, media relations, call centres, telemarketing);
- Business continuity and disaster recovery capacity and capabilities; and
- Professional services related to the business activities of the institution (e.g. accounting, internal audit, actuarial).

2 The following arrangements would generally not be considered outsourcing and they are categorized under 4 general groupings:

Arrangements where the required infrastructure necessitates such substantial investments as to render in-house provision of services nearly impossible, or where certain industry characteristics require the use of third-party providers.

- Telephone, utilities;
- Market information services (e.g. Bloomberg, Moody's, Standard & Poors);
- Common network infrastructures (e.g. VISA, Mastercard)
- Clearing and settlement arrangements between clearing and settlement institutions/houses and their members, and similar arrangements between members and non-members;

- Correspondent banking services; and
- Introducer arrangements (where the institution does not have any contractual relationship with customers).

Arrangements that pertain to principal-agent relationships rather than outsourcing.

- Sale of insurance policies by agents or brokers, and ancillary services relating to those sales.

Arrangements that the institution is not legally or administratively able to provide.

- Statutory audit and independent audit assessments;
- Discreet advisory services (e.g. legal opinions, certain investment advisory services that do not result directly in investment decisions, independent appraisals, trustees in bankruptcy, loss adjuster); and
- Independent consulting.

Arrangements that are generally considered low-risk.

- Mail, courier services;
- Printing services;
- Purchase of goods, commercially available software and other commodities;
- Credit background, background investigation and information services; and
- Employment of contract or temporary personnel.

