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# GUIDELINES ON OUTSOURCING

MAS

Monetary Authority of Singapore

## PREFACE

1 MAS first issued the Guidelines on Outsourcing (“the Guidelines”) in 2004<sup>1</sup> to promote sound risk management practices for outsourcing arrangements of financial institutions (“institutions”). As outsourcing arrangements have become more prevalent and complex over the years, MAS proposes revisions to the Guidelines. These proposals are part of MAS’ efforts to raise the standards of institutions’ risk management practices.

2 The updated Guidelines provide further guidance on sound practices relating to the “Responsibility of the Board and Senior Management” and “Monitoring and Control of Outsourcing Arrangements” in paragraphs 5.2 and 5.8, respectively. These changes underscore the need for an institution-wide, responsive and rigorous approach towards management of outsourcing arrangements.

3 MAS invites interested parties to submit their views and comments on updates to the Guidelines, including the above-mentioned sections as well as in the following areas where significant changes have been made:

- a) Applicability to “Institutions” (Page 2)
- b) Definition of Material Outsourcing Arrangement (Page 3)
- c) Notification of Adverse Developments (Page 7)
- d) Fit and Proper Criteria (Page 12)
- e) Audit Frequency and Scope (Page 21-22)
- f) Register of Outsourcing Arrangements (Page 30)

4 Electronic submission of views and comments is encouraged. Please email your comments to [outsourcing@mas.gov.sg](mailto:outsourcing@mas.gov.sg) by 7 October 2014. Alternatively, you may wish to submit your comments by post to:

**Outsourcing Workgroup**  
(Attention: Banking Department II)  
Monetary Authority of Singapore  
10 Shenton Way, MAS Building  
Singapore 079117

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<sup>1</sup> The Guidelines on Outsourcing were subsequently updated on 1 July 2005.

5 Please note that any submission received may be made public unless confidentiality is specifically requested for the whole or part of the submission.

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## DEFINITIONS

In these Guidelines on Outsourcing, 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; and
- (b) in the case of an institution incorporated or established outside Singapore, a management committee or body beyond local management charged with oversight and supervision responsibilities for the institution in Singapore;

“customer” means –

- (a) in relation to any trustee for a collective investment scheme authorised under section 286 of the Securities and Futures Act (Cap. 289), that is approved under that Act, the managers of and participants of the collective investment scheme;
- (b) in relation to an approved exchange, recognised market operator incorporated in Singapore, approved clearing house, recognised clearing house incorporated in Singapore, and licensed trade repository under the Securities and Futures Act, a person who may participate in one or more of the services provided by such entities; or
- (c) in relation to a licensed trust company under the Trust Companies Act (Cap. 336), a trust for which the trust company provides trust business services and includes the settlor and any beneficiary under the trust;

“customer information” means –

- (a) in relation to a licensed trust company, “protected information” as defined in section 49 of the Trust Companies Act;
- (b) in relation to an approved exchange, recognised market operator incorporated in Singapore, approved clearing house and recognised clearing house incorporated in Singapore, “user information” as defined in section 2 of the Securities and Futures Act;
- (c) in relation to a licensed trade repository, “user information” and “transaction information” as defined in section 2 of the Securities and Futures Act; or
- (d) in the case of any other institution, information held by the institution that relates to its customers and these include customers’ accounts, particulars, transaction details and dealings with the financial institutions;

“institution” means any financial institution as defined in section 27A of the Monetary Authority of Singapore Act (Cap. 186);

“material outsourcing arrangement” means an outsourcing arrangement –

- (a) which, in the event of a service failure or security breach, has the potential to either:
  - (i) materially impact an institution’s business operations, reputation or profitability; or
  - (ii) adversely affect an institution’s ability to manage risk and comply with applicable laws and regulations,

or

- (b) which involves customer information and, in the event of any unauthorised access or disclosure, loss or theft of customer information, may materially impact an institution’s customers;

“outsourcing agreement” means a written agreement setting out the contractual terms and conditions governing relationships, functions, obligations, responsibilities, rights and expectations of the contracting parties in an outsourcing arrangement;

“outsourcing arrangement” means an arrangement in which a service provider provides the institution with a service that may currently or potentially be performed by the institution itself and which includes the following characteristics:

- (a) the institution is dependent on the service on an ongoing basis but such service excludes services that involve the provision of a finished product (e.g. insurance policies); and
- (b) the service is integral to the provision of a financial service by the institution or the service is provided to the market by the service provider in the name of the institution;

“service provider” means any party which provides a service to the institution, including any entity within the institution’s group<sup>2</sup>, whether it is located in Singapore or elsewhere;

“sub-contracting” means an arrangement where a service provider which has an outsourcing arrangement with an institution, further outsources the services or part of the services covered under the outsourcing arrangement to another service provider.

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<sup>2</sup> This refers to the institution’s Head Office or parent institution, subsidiaries, affiliates, and any entity (including their subsidiaries, affiliates and special purpose entities) that the institution exerts control over or that exerts control over the institution.

## 1 INTRODUCTION

1.1 While outsourcing arrangements can bring cost and other benefits, it may increase the risk profile of an institution due to, for example, 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 several of the institution's functions are outsourced to the same service provider. It is therefore important that an institution adopts a sound and responsive risk management framework for its outsourcing arrangements.

1.2 These Guidelines<sup>3</sup> on Outsourcing ("Guidelines") set out the Monetary Authority of Singapore's ("MAS") expectations of an institution that has entered into any outsourcing arrangement or is planning to outsource its business activities<sup>4</sup> to a service provider.

## 2 APPLICABILITY OF GUIDELINES

2.1 These Guidelines provide guidance on sound practices on risk management of outsourcing arrangements. The 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 the Guidelines should commensurate with the nature of risks in, and materiality of, the outsourcing arrangement. In supervising an institution, MAS will review the implementation of these Guidelines by an institution to assess the quality of its board and senior management oversight and governance, internal controls and risk management. MAS is particularly interested in material outsourcing arrangements.

2.2 Annex 1 provides examples of outsourcing arrangements to which these Guidelines are applicable, and arrangements that are not intended to be subject to these Guidelines. These are only examples and are not exhaustive. It should also not be misconstrued that arrangements not listed as outsourcing need not be subject to adequate risk management and sound internal controls.

2.3 Annex 2 provides guidance to institutions in determining how the Guidelines apply to their outsourcing arrangements. An institution should apply all

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<sup>3</sup> Please refer to MAS' website ([www.mas.gov.sg](http://www.mas.gov.sg)) for details of the classification of instruments issued by MAS.

<sup>4</sup> 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.

risk management practices in paragraph 5 of these Guidelines to material outsourcing arrangements. Any divergence from these Guidelines because of risk mitigating factors or controls should be clearly documented. For non-material outsourcing arrangements, an institution may adapt the practices accordingly for the outsourcing arrangement. However, the guidelines in paragraphs 5.5.2(i), 5.9, and 5.10, apply to all outsourcing arrangements, whether material or non-material.

2.4 Annex 3 provides guidance to an institution in assessing whether an arrangement would be considered a material outsourcing arrangement.

2.5 Annex 4 provides a template for an institution to maintain a register of its outsourcing arrangements which is to be submitted to MAS, upon request.

2.6 An institution incorporated in Singapore should 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. An institution should ensure these Guidelines are observed by branches and corporations under its control.

2.7 The practices articulated in these Guidelines are not intended to be exhaustive or override any legislative provisions. They should be read in conjunction with the provisions of the relevant legislation, the subsidiary legislation made under the relevant legislation, as well as written directions, notices, codes and other guidelines that MAS may issue from time to time pursuant to the relevant legislation and subsidiary legislation.

2.8 An institution should conduct a self-assessment of all existing outsourcing arrangements against these Guidelines. Where a material outsourcing arrangement has not been notified to MAS, the institution should do so in writing, within two months from the date of issue of these Guidelines. An institution should also rectify the deficiencies identified in the self-assessment no later than six months from the date of issue of the Guidelines. Where the rectification concerns an existing outsourcing agreement, it may be made when the outsourcing agreement is substantially amended, renewed or extended, whichever is earliest. Nevertheless, if a deficiency identified from the self-assessment process is significant, an institution should have in place measures to mitigate the risks in the interim.

### **3 LEGAL AND REGULATORY OBLIGATIONS**

3.1 Outsourcing arrangements do not diminish the obligations of an institution, and those of its board and senior management, to comply with relevant laws and regulations in Singapore. Every institution should have risk management practices to ensure that 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.

3.2 Every institution should conduct its business with integrity and competence. Hence an institution should not engage in any outsourcing arrangement that results in its risk management, internal control, business conduct or reputation being compromised or weakened. An institution should take steps to ensure that the service provider and sub-contractors employ a high standard of care in performing the service as if the service continues to be conducted by the institution. The institution should also 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.

### **4 ENGAGEMENT WITH MAS ON OUTSOURCING**

#### **4.1 Notification Of Material Outsourcing Arrangement**

4.1.1 An institution should notify MAS before it commits to the commencement of any material outsourcing arrangement or amends an existing material outsourcing arrangement, and be ready to demonstrate to MAS its observance of these Guidelines. Factors that an institution should consider to assess the materiality in an outsourcing arrangement are set out in Annex 3.

4.1.2 MAS may require additional measures to be taken by an institution if MAS is not satisfied with the institution's observance of the Guidelines. MAS may also take other supervisory actions, depending on the potential impact of the outsourcing on the institution and the financial system, the institution's track record in internal controls and risk management, and also on the circumstances of the case. MAS may directly communicate with the home or host regulators of the institution and its

service provider, on their ability and willingness to cooperate with MAS in supervising the outsourcing risks to the institution.

4.1.3 Notwithstanding paragraph 4.1.1, MAS may require an institution to modify, make alternative arrangements or re-integrate an outsourced service into the institution where one of the following circumstances arises.

- (a) An institution fails or is unable to demonstrate a satisfactory level of understanding of the nature and extent of risks involved or emerging from the outsourcing arrangement;
- (b) An institution fails or is unable to implement adequate measures to address the risks and deficiencies arising from its outsourcing arrangements in a satisfactory and timely manner;
- (c) Adverse developments arise from the outsourcing arrangement that could significantly affect an institution;
- (d) MAS' supervisory powers over the institution and ability to carry out MAS' supervisory functions in respect of the institution's services are hindered; or
- (e) The confidentiality of its customer information cannot be assured.

## 4.2 Notification Of Adverse Developments

4.2.1 An institution should notify MAS as soon as possible of any adverse development or breach of legal and regulatory requirements by the institution or its service provider and sub-contractors from its outsourcing arrangement. This includes any event that could potentially lead to prolonged service failure or disruption in or the termination and early exit of, the outsourcing arrangement, and any significant unauthorised access or breach of security and confidentiality that affect the institution or its customers. An institution should also notify MAS of such adverse development or breach of legal and prudential requirements encountered within the institution's group.

## 4.3 Newly Regulated Institutions or Acquired Arrangements

4.3.1 An institution which has recently come under the regulation of MAS or which is bound by outsourcing arrangements as a result of an acquisition of the business of another institution should conduct a self-assessment of all existing or newly acquired outsourcing arrangements against these Guidelines and notify MAS of the material outsourcing arrangements in writing, within two months from the date the institution becomes an entity regulated by MAS or acquisition date. The institution should also rectify the deficiencies identified in the self-assessment no later than six months from the date that the institution becomes an entity regulated

by MAS or acquisition date. Where the rectification concerns an existing outsourcing agreement, it may be made when the agreement is substantially amended, renewed or extended, whichever is earliest. Nevertheless, if a deficiency identified from the self-assessment process is significant, an institution should have in place measures to mitigate the risks in the interim.

## **5 RISK MANAGEMENT PRACTICES**

### **5.1 Overview**

5.1.1 In supervising an institution, MAS will review its implementation of these Guidelines to assess the quality of its board and senior management oversight and governance, internal controls and risk management. Where an institution enters into a material outsourcing arrangement, the institution should apply all risk management practices articulated in these Guidelines to the outsourcing arrangement.

### **5.2 Responsibility Of The Board And Senior Management**

5.2.1 The board and senior management of an institution play pivotal roles in ensuring a sound risk management culture and environment. While an institution may delegate day-to-day operational duties to the service provider, the responsibilities for effective oversight and governance, and management of all outsourcing arrangements and associated risks, accountability for all outsourcing decisions, and implementation of a consistent institution-wide outsourcing risk management framework, in accordance with these Guidelines, continue to rest with the institution, its board and senior management. The board and senior management of an institution should ensure there are adequate processes to provide a comprehensive institution-wide view of its risk exposures from all its outsourcing arrangements, and to incorporate the assessment of such risks into the institution's outsourcing risk management framework.

5.2.2 The board, or a committee delegated by it, is responsible for:

- (a) approving a framework to evaluate the risks and materiality of all existing and prospective outsourcing arrangements and the policies that apply to such arrangements;
- (b) setting a suitable risk appetite to define the nature and extent of risks that the institution is willing and able to assume from its outsourcing arrangements;

- (c) laying down appropriate approval authorities and limits for outsourcing arrangements consistent with its established strategy and risk appetite;
- (d) assessing management competencies for developing sound and responsive outsourcing risk management policies and procedures commensurate with the nature, scope and complexity of the outsourcing arrangements;
- (e) ensuring that senior management establishes appropriate governance structures and processes for sound and prudent risk management, including a management body that reviews controls for consistency and alignment with a comprehensive institution-wide view of risk; and
- (f) undertaking regular reviews of these outsourcing strategies and arrangements for their continued relevance, and safety and soundness.

5.2.3 Where the board delegates its responsibility to a committee as described in paragraph 5.2.2, the board should establish communication procedures between the board and the committee. This should include requiring such committee to report to the board on a regular basis.

5.2.4 Senior management is responsible for:

- (a) evaluating the materiality and risks from all existing and prospective outsourcing arrangements, based on the framework approved by the board;
- (b) developing sound and prudent outsourcing policies and procedures commensurate with the nature, scope and complexity of the outsourcing arrangements, and ensuring that staff in the institution are made aware of these policies and procedures for its outsourcing arrangements;
- (c) reviewing regularly the effectiveness of, and appropriately adjusting, policies, standards and procedures to reflect changes in the institution's overall risk profile and risk environment;
- (d) monitoring and maintaining effective control of all risks from its material outsourcing arrangements on an institution-wide basis;
- (e) ensuring that contingency plans, based on realistic and probable disruptive scenarios, are in place and tested;
- (f) ensuring that there is independent review and audit for compliance with set policies and procedures;
- (g) ensuring appropriate and timely remedial actions are taken to address audit findings; and

- (h) communicating information pertaining to risks from its material outsourcing arrangements to the board in a timely manner.

5.2.5 For an institution incorporated or established outside Singapore, the functions of the board described in paragraph 5.2.2 may be delegated to and performed by a management committee or body beyond local management that is charged to functionally oversee and supervise the local office (e.g., a regional risk management committee). The functions of senior management in paragraph 5.2.4 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.

### 5.3 Evaluation of Risks

5.3.1 In order to be satisfied that an outsourcing arrangement does not result in the risk management, internal control, business conduct or reputation of an institution being compromised or weakened, the board and senior management would need to be fully aware of and understand the risks in an outsourcing arrangement and their impact of such risks on the institution. The institution should establish a framework for risk evaluation which should include the following steps:

- (a) identification of the role of its outsourcing arrangements in the overall business strategy and objectives of the institution, and its interaction with corporate strategic goals;
- (b) comprehensive due diligence on the nature, scope and complexity of the outsourcing arrangement, to identify the key risks and risk mitigation strategies;
- (c) assessment<sup>5</sup> of the service provider and its sub-contractors in the outsourcing arrangement, and their ability to employ the high standard of care and meet the regulatory standards as expected of the institution, and comply with applicable laws and regulations, as if the outsourcing arrangement were being conducted by the institution;
- (d) 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;
- (e) analysis of the institution's as well as the institution's group aggregate exposure to the outsourcing arrangement, to manage concentration risks in outsourcing to a service provider; and

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<sup>5</sup> Please see paragraph 5.4 on assessment of service providers.

- (f) analysis of risk-return on the potential benefits of outsourcing against the vulnerabilities that may arise, ranging from the impact of temporary service failure to that of a breach in security and confidentiality, and unexpected termination in the outsourcing arrangement, and whether for strategic and internal control reasons, the outsourcing arrangement should not be entered into.

5.3.2 Such evaluations should be performed when an institution is planning to enter into an outsourcing arrangement with an existing or a new service provider, and also re-performed periodically on existing outsourcing arrangements, as part of the approval, strategic planning, risk management or internal control reviews of the outsourcing arrangements of the institution.

## 5.4 Assessment of Service Providers

5.4.1 In considering, renegotiating or renewing an outsourcing arrangement, an institution should subject the service provider to appropriate due diligence processes to assess the risks associated with the outsourcing arrangements<sup>6</sup>.

5.4.2 An institution should address all relevant aspects of the service provider, including its capability to employ a high standard of care in the performance of the outsourcing arrangement as if the outsourcing arrangement were being conducted by the institution to meet its obligation as a regulated entity. The due diligence should also take into consideration qualitative and quantitative aspects of financial, operational and reputation factors including the level of ethical and professional standards held by the service provider, and the service provider's ability to comply with its obligations under the outsourcing arrangement. Compatibility, performance, and internal controls should be emphasised in the assessment. Onsite visits to the service provider, and where possible, independent reviews and market feedback on the service provider, should also be used by the institution to supplement its findings. Onsite visits should be conducted by persons who possess the requisite knowledge and skills to conduct the assessment, which includes physical and IT security controls.

5.4.3 The due diligence should involve an evaluation of all available information about the service provider. Information to be evaluated include the service provider's:

- (a) experience and competence to implement and support the outsourcing arrangement over the contracted period;
- (b) financial strength and resources (the due diligence should be similar to a credit assessment of the viability of the service provider based

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<sup>6</sup> This is a mandatory requirement in the Notice on Outsourcing applicable to the institutions subject to the Notice.

- on reviews of business strategy and goals, audited financial statements, the strength of commitment of major equity sponsors and ability to service commitments even under adverse conditions);
- (c) corporate governance, business reputation and culture, compliance, complaints and outstanding or potential litigation;
  - (d) security and internal controls, audit coverage, reporting and monitoring environment;
  - (e) risk management framework and capabilities, including in technology risk management<sup>7</sup> and business continuity management<sup>8</sup> in respect of the outsourcing arrangement;
  - (f) disaster recovery arrangements made by the service provider and track record of its disaster recovery service provider if outsourcing service provider is responsible for such provisions with the outsourcing arrangement;
  - (g) reliance on and success in dealing with sub-contractors;
  - (h) insurance coverage;
  - (i) 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; and
  - (j) its track record and ability to comply with applicable laws and regulations.

5.4.4 The institution should ensure that the employees of the service provider and its sub-contractors undertaking any part of the outsourcing arrangement have been assessed to be fit and proper, consistent with the criteria applicable to its own employees. The following are some non-exhaustive examples of what could be considered under the fit and proper assessment:

- (a) whether they have been the subject of any proceedings of a disciplinary or criminal nature;
- (b) whether they have been convicted of any offence (in particular, that associated with a finding of fraud, misrepresentation or dishonesty);
- (c) whether they have accepted civil liability for fraud or misrepresentation; and
- (d) whether they are financially sound.

Any adverse findings from the fit and proper assessment should be considered in light of their relevance and impact to the outsourcing arrangement.

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<sup>7</sup> Standards should be commensurate with that expected of the institution as set out in MAS' Technology Risk Management Guidelines.

<sup>8</sup> Standards should be commensurate with that expected of the institution as set out in MAS' Business Continuity Management Guidelines. Please also see paragraph 5.7 of the Guidelines on Outsourcing for more guidance.

5.4.5 Due diligence undertaken during the assessment process should be documented and re-performed at least on an annual basis as part of the monitoring and control processes of outsourcing arrangements<sup>9</sup>. The due diligence process may vary depending on the nature, and extent of risk and impact to the institution in the event of a service failure or breach of security and confidentiality in the outsourcing arrangement (e.g., reduced due diligence may be sufficient where the outsourcing arrangements and sub-contracting are made within the institution's group<sup>10</sup>). An institution should ensure that the information used for due diligence evaluation is current and should not be more than 12 months old. An institution should also consider the findings from the due diligence evaluation to determine the audit frequency and scope.

## 5.5 Outsourcing Agreement

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

5.5.2 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 outsourcing agreement should allow for timely renegotiation and renewal to enable the institution to retain an appropriate level of control over the outsourcing arrangement and the right to intervene with appropriate measures to meet its legal and regulatory obligations. The outsourcing 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, the service provider, and its sub-contractors, as elaborated in paragraph 5.9.1. It should at the very least, have provisions to address all the following aspects of outsourcing:

- (a) scope of the outsourcing arrangement;
- (b) performance, operational, internal control and risk management standards;
- (c) confidentiality and security<sup>11</sup>;
- (d) business continuity management<sup>12</sup>;
- (e) monitoring and control<sup>13</sup>;

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<sup>9</sup> This is a mandatory requirement in the Notice on Outsourcing applicable to the institutions subject to the Notice.

<sup>10</sup> Please see paragraph 5.11 on arrangements relating to outsourcing within a group.

<sup>11</sup> Refer to paragraph 5.6

<sup>12</sup> Refer to paragraph 5.7

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- (f) audit and inspection<sup>14</sup>;
- (g) Notification of adverse developments  
An outsourcing agreement should specify the type of events and when the service provider should report to the institution in view of the expectation for an institution to report such developments to MAS in paragraph 4.2.1;
- (h) Dispute resolution  
An outsourcing agreement should specify the resolution process, events of default, and the indemnities, remedies and recourse of the respective parties to the agreements. The institution should ensure that its contractual rights are safeguarded and can be exercised in the event of a breach of the clauses in outsourcing agreement by the service provider;
- (i) Default termination and early exit<sup>15</sup>  
An institution should have the right to terminate the outsourcing 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. Other provisions should be put in place to ensure a smooth transition when the contract is terminated or being amended by either party. Such provisions may include provisions that facilitate transferability of the outsourced services to a bridge-institution or a third party acquirer. Where the outsourcing agreement involves an intra-group entity, the agreement should be legally enforceable;
- (j) Sub-contracting  
An institution should retain the ability to maintain similar control over the risks from its outsourcing arrangements when a service provider uses a sub-contractor as in its outsourcing agreement with the service provider. An outsourcing agreement should have clauses setting out the rules and limitations on sub-contracting. An institution

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<sup>13</sup> Refer to paragraph 5.8

<sup>14</sup> Refer to paragraph 5.9

<sup>15</sup> This is a mandatory requirement in the Notice on Outsourcing applicable to the institutions subject to the Notice.

may want to include clauses making the service provider contractually liable 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. The institution should ensure that sub-contracting of material outsourcing arrangements should be subject to prior approval of the institution;

(k) 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.

5.5.3 Each agreement should be tailored to address additional issues arising from country risks and potential obstacles in exercising oversight and management of the outsourcing arrangements made with a service provider outside Singapore<sup>16</sup>.

## 5.6 Confidentiality and Security

5.6.1 As public confidence in 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 the confidentiality and security of customer information.

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

- (a) Address, agree and document the respective responsibilities of the various parties in the outsourcing arrangement 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 or confidentiality and the service provider's obligation to inform the institution;

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<sup>16</sup> Refer to paragraph 5.10

- (b) 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 unauthorised disclosure of the institution's customer information to any other party should be prohibited;
- (c) 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;
- (d) Ensure the service provider is able to isolate and clearly identify the institution's customer information, documents, records, and assets to protect the confidentiality of the information, particularly where multi-tenancy<sup>17</sup> arrangements are present at the service provider. 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
- (e) 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 confidentiality and security adequacy and compliance in respect of the operations of the service provider, and requiring the service provider to disclose breaches of confidentiality in relation to customer information.

5.6.3 To protect the confidentiality and security of customer information, an institution would need to ensure compliance with all relevant laws and regulations, and observance of all relevant guidelines and codes.

## 5.7 Business Continuity Management

5.7.1 An institution should ensure that its business continuity is not compromised by any outsourcing arrangement, in particular, of the operation of its critical systems as stipulated under the Technology Risk Management Notice. An institution should 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.

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<sup>17</sup> Multi-tenancy" generally refers to a mode of operation adopted by service providers where a single computing infrastructure (e.g. servers, databases etc.) is used to serve multiple customers (tenants).

5.7.2 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 a service failure of or disruption in, or unexpected termination of the outsourcing arrangement or liquidation of the service provider. These should include the following steps:

- (a) Determine that the service provider has in place satisfactory business continuity plans (“BCP”) commensurate with the nature, scope and complexity of the outsourcing arrangement. Outsourcing agreements should contain BCP requirements on the service provider, in particular, recovery time objectives (“RTO”), recovery point objectives (“RPO”), and resumption operating capacities. Escalation, activation and crisis management procedures should also be clearly defined;
- (b) 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 RTO, RPO and resumption operating capacities. Such tests would serve to familiarise the institution and the service provider with the recovery processes as well as improve the coordination between the parties involved. 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 substantial changes in the service provider’s BCP plans and of any adverse development that could substantially impact the service provided to the institution; and
- (c) Ensure the service provider is able to isolate and clearly identify the institution’s information, documents and records, and other assets, particularly where multi-tenancy arrangements are present at the service provider. This is to ensure 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.

5.7.3 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 that commensurate with the nature, scope and complexity of the outsourcing arrangement, including risks arising from interdependencies on the institution. For tests to be complete and meaningful, the institution should involve the service provider in the validation of its BCP and assessment of the awareness and

preparedness of its own staff. Similarly, the institution should take part in its service providers' BCP and disaster recovery exercises.

5.7.4 The institution should base its business continuity considerations and requirements on worst-case scenarios. Some examples of these scenarios are unavailability of service provider due to unexpected termination of the outsourcing or liquidation of the service provider, wide-area outage disruptions that result in collateral impact on both the institution and the service provider. Where the interdependency on an institution in the financial system is high<sup>18</sup>, the institution should 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.

## 5.8 Monitoring and Control of Outsourcing Arrangements

5.8.1 An institution should establish a structure for the management and control of its outsourcing arrangements. Such a structure will vary depending on the nature and extent of risks in the outsourcing arrangements. As relationships and interdependencies in respect of outsourcing arrangements 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, operational, internal control and risk management standards are upheld. An institution should ensure that outsourcing agreements with service providers contain clauses to address their monitoring and control of outsourcing arrangements.

5.8.2 An institution should put in place all the following measures for effective monitoring and control of any material outsourcing arrangement:

- (a) A register of all material outsourcing arrangements that is readily accessible for review by the board and senior management of the institution. Information maintained in the register 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, operational, internal control and risk management standards of the outsourcing arrangement. The register should be updated promptly and form part of the oversight and governance reviews undertaken by the board and senior management of the institution, similar to those described in paragraph 5.2;
- (b) Multi-disciplinary outsourcing management groups with members from different risk and internal control functions including legal,

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<sup>18</sup> In MAS' BCM Guidelines, these institutions are referred to as Significantly Important Institutions.

compliance and finance, to ensure that all relevant technical issues and legal and regulatory requirements are met at planning and throughout the period of the outsourcing arrangement. The institution should allocate sufficient resources, in terms of both time and skilled manpower, to the management groups to enable staff to adequately plan and oversee the entire outsourcing lifecycle;

- (c) 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, confidentiality and security adequacy and compliance, security vulnerability management (e.g., vulnerability assessments, penetration tests), 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, particularly where the service provider undertakes services for several customers (e.g., providing disaster recovery service to several customers who operate in the same locality). Such monitoring should be regular and further validated through the review of reports by auditors of the service provider or audits commissioned by the institution;
- (d) Establishment of service recovery procedures and reporting of lapses relating to the agreed service standards by the service provider;
- (e) Periodic reviews, at least on an annual basis, of outsourcing arrangements. This is to ensure that the institution's outsourcing risk management policies and procedures, and these Guidelines, are effectively implemented. Such reviews should ascertain the adequacy of internal risk management and management information systems established by the institution (e.g., assessing the suitability of metrics and data that evaluate the performance level of the service provider, adequacy and timeliness of reports to track remediation actions to be taken within the FI and with the service provider on audit findings) and highlight any deficiency or breach in the institution's systems of control;
- (f) 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 for information. The institution should ensure that monitoring metrics and performance data specific to the institution are available for reporting, and not aggregated with metrics or data belonging to other customers of the service provider. The institution should also ensure that any adverse development arising in any outsourcing arrangement 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. When adverse development occurs, prompt actions should be taken by an institution to review the outsourcing relationship for modification or termination of the agreement; and

- (g) Pre- and post- implementation reviews of new outsourcing arrangements or when amendments are made to the outsourcing arrangements. These reviews should be comprehensive and include the end-to-end processes. If an outsourcing arrangement is materially amended, a full due diligence of the service provider should also be conducted.

## 5.9 Audit and Inspection

5.9.1 An institution's outsourcing arrangements should not interfere with the ability of the institution to effectively manage its business activities or impede MAS in carrying out its supervisory functions and objectives.

5.9.2 An institution should include in all its outsourcing agreements clauses that<sup>19</sup>:

- (a) allow the institution to conduct audits on the service provider and its sub-contractors, 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 and its sub-contractors, whether produced by the service provider's or its sub-contractors' internal or external auditors, or by agents appointed by the service provider and its sub-contractor, in relation to the outsourcing arrangement;
- (b) allow MAS, or any agent appointed by MAS, where necessary or expedient, to exercise the contractual rights of the institution to access and inspect the service provider and its sub-contractors, 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 its sub-contractors, and the right to access any report and finding made on the service provider and its sub-contractors, whether produced by the service provider's and its sub-contractors' internal or external auditors, or by agents appointed by the service provider and its sub-contractors, in relation to the outsourcing arrangement; and
- (c) indemnify and hold MAS, its officers, agents and employees harmless from any liability, loss or damage to the service provider

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<sup>19</sup> This is a mandatory requirement in the Notice on Outsourcing applicable to the institutions subject to the Notice.

and its sub-contractors arising out of any action taken to access and inspect the service provider or its sub-contractors pursuant to the outsourcing agreement.

5.9.3 The outsourcing agreement should also include clauses that require the service provider to comply, as soon as possible, with any request from MAS or the institution, to the service provider and its sub-contractors to submit any reports on the security and control environment of the service provider and its sub-contractors, in relation to the outsourcing arrangement.

5.9.4 An institution should ensure that these requirements are met in its outsourcing arrangements with the service provider as well as any sub-contractor that the service provider may engage in the outsourcing arrangement, including any disaster recovery and backup service providers. MAS will provide the institution reasonable notice of its intent to exercise its inspection rights and share its findings with the institution where appropriate.

5.9.5 An institution should ensure that independent audits and/or expert assessments of all its outsourcing arrangements are conducted. In determining the frequency of audit and expert assessment, the institution should consider the nature and extent of risk and impact to the institution from the outsourcing arrangements. The period between audits should not exceed 3 years<sup>20</sup>. The scope of the audits and expert assessments should include an assessment of the service providers' and its sub-contractors' security<sup>21</sup> and control environment, incident management process (for material breaches, service disruptions or other material issues) and the institution's observance with MAS' Guidelines on Outsourcing and compliance with the Notice on Outsourcing<sup>22</sup> in relation to the outsourcing arrangement.

5.9.6 The independent audit and/or expert assessment and reports on the service provider and its sub-contractors 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 outsourcing arrangement. Senior management should ensure appropriate and timely remedial actions are taken to address the audit findings. Institutions should have adequate processes in place to ensure that remedial actions are satisfactorily completed. Actions taken by the service provider to address the audit findings should be appropriately validated by the institution before closure. Where necessary, the

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<sup>20</sup> This is a mandatory requirement in the Notice on Outsourcing applicable to the institutions subject to the Notice.

<sup>21</sup> The security environment refers to both the physical and IT security environments.

<sup>22</sup> This is a mandatory requirement in the Notice on Outsourcing applicable to the institutions subject to the Notice.

relevant persons who possess the requisite knowledge and skills should be involved to validate the effectiveness of the security and control measures taken.

5.9.7 Significant issues and concerns should be 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 the institution to review the outsourcing arrangement if the risk posed is no longer within the institution's risk tolerance, such as by modifying or terminating the existing arrangement.

5.9.8 Copies of audit reports should be submitted by the institution to MAS. An institution should also, upon request, provide MAS with other reports or information on the institution and service provider that is related to the outsourcing arrangement.

## 5.10 Outsourcing Outside Singapore

5.10.1 The engagement of a service provider in a foreign country, or the engagement whereby the outsourced function is performed 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 arrangements, an institution should take into account, with due diligence and on a continuous basis:

- (a) government policies;
- (b) political, social, economic conditions;
- (c) legal and regulatory developments in the foreign country; and
- (d) the institution's ability to effectively monitor the service provider, and to execute its business continuity management plans and exit strategy.

The institution should also be aware of the disaster recovery arrangements and locations established by the service provider in relation to the outsourcing arrangement. As information and data could be moved to primary or backup sites located in foreign countries, the risk associated with the medium of transport, be it physical or electronic, across borders should also be considered.

5.10.2 Outsourcing arrangements with service providers located outside Singapore should be conducted in a manner so as not to hinder efforts to supervise or reconstruct the Singapore business activities of the institution (i.e., from its books, accounts and documents) in a timely manner:

- (a) An institution should, in principle, enter into arrangements only with service providers operating in jurisdictions that generally uphold confidentiality clauses and agreements.
- (b) An institution should not enter into outsourcing arrangements with service providers in 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 inspecting the service provider, as well as the rights of access to the institution and service provider's information, reports and findings related to the outsourcing arrangement, as set out in paragraph 5.9.
- (c) An institution 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 5.9, have been restricted or denied.

## 5.11 Outsourcing Within a Group

5.11.1 These Guidelines are applicable to outsourcing to parties within an institution's group. For an institution incorporated or established outside Singapore, the roles and responsibilities of the local management are set out in paragraph 5.2.4.

5.11.2 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.

## 5.12 Outsourcing of Internal Audit to External Auditors

5.12.1 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 criticise itself for the quality of the external audit or consultancy services provided to the institution. In addition, as operations of an institution could be 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.

5.12.2 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.

**Annex 1****EXAMPLES OF OUTSOURCING ARRANGEMENTS**

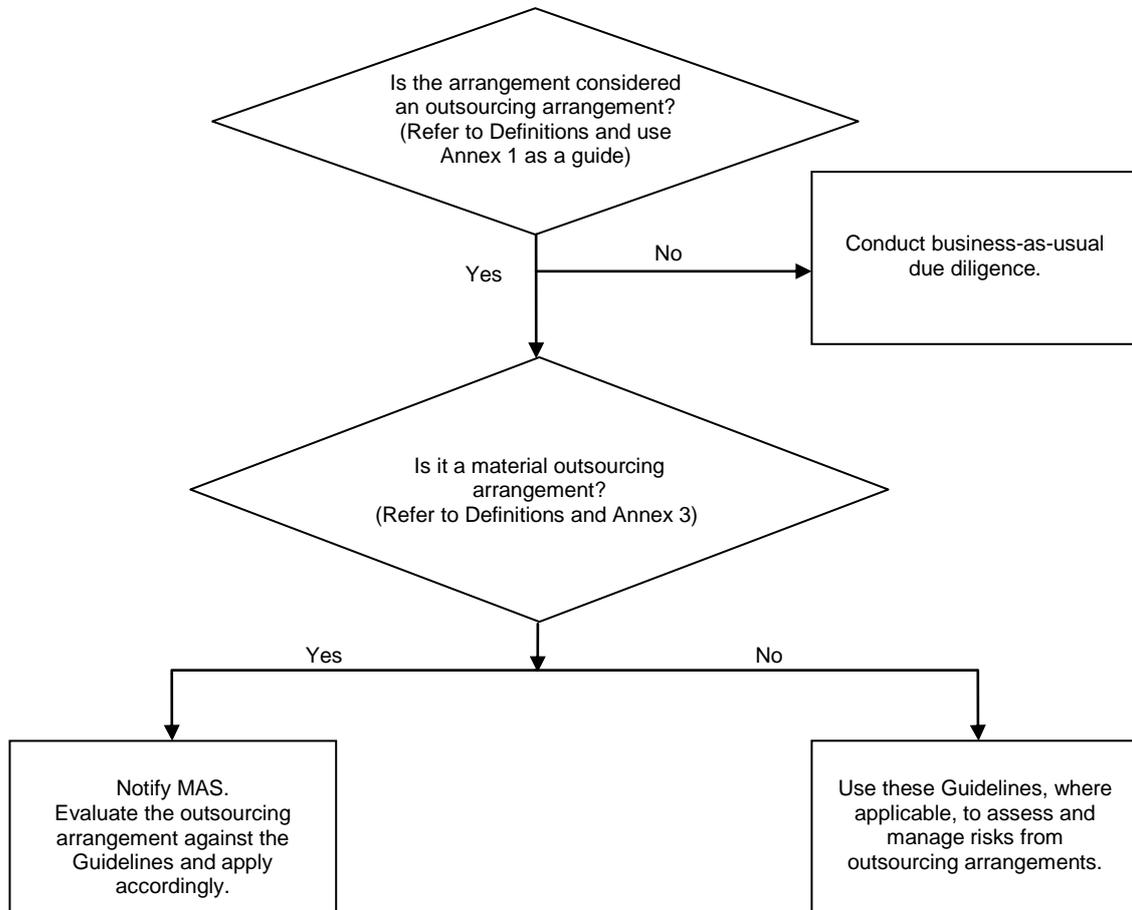
- 1 The following are examples of some services that, when performed by a third party, would be regarded as outsourcing arrangements for the purposes of these Guidelines although they are not exhaustive:-
- (a) application processing (e.g., loan origination, credit cards);
  - (b) white-labelling arrangements such as for trading and hedging facilities;
  - (c) middle and back office operations (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, order processing, trade settlement and risk management);
  - (d) business continuity and disaster recovery functions and activities;
  - (e) claims administration (e.g., loan negotiations, loan processing, collateral management, collection of bad loans);
  - (f) document processing (e.g., cheques, credit card and bill payments, bank statements, other corporate payments, customer statement printing);
  - (g) information systems hosting (e.g., software-as-a-service, platform-as-a-service, infrastructure-as-a-service);
  - (h) information systems management and maintenance (e.g., data entry and processing, data centres, facilities management, end-user support, local area networks, help desks, information technology security operations);
  - (i) investment management (e.g., portfolio management (including research and sub-advisory arrangements), cash management);
  - (j) management of policy issuance and claims operations by managing agents;
  - (k) manpower management (e.g., benefits and compensation administration, staff appointment, training and development);
  - (l) marketing and research (e.g., product development, data warehousing and mining, media relations, call centres, telemarketing); and
  - (m) professional services related to the business activities of the institution (e.g., accounting, internal audit, actuarial, legal, compliance); and
  - (n) support services related to archival and storage of data and records.

2 The following arrangements would generally not be considered outsourcing arrangements.

- a) arrangements in which certain industry characteristics require the use of third-party providers:-
  - (i) telecommunication services and public utilities (e.g., electricity);
  - (ii) postal services;
  - (iii) market information services (e.g., Bloomberg, Moody's, Standard & Poor's);
  - (iv) common network infrastructure (e.g., Visa, MasterCard, MASNET+);
  - (v) clearing and settlement arrangements between clearing houses and settlement institutions and their members, and similar arrangements between members and non-members;
  - (vi) global financial messaging infrastructure which are subject to oversight by relevant regulators; and
  - (vii) correspondent banking services.
  
- b) arrangements that pertain to principal-agent relationships -
  - (i) sale of insurance policies by agents, and ancillary services relating to those sales;
  - (ii) acceptance of business by underwriting agents; and
  - (iii) introducer arrangements (where the institution does not have any contractual relationship with customers).
  
- c) arrangements that the institution is not legally or administratively able to provide—
  - (i) statutory audit and independent audit assessments;
  - (ii) 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
  - (iii) independent consulting (e.g. consultancy services for areas which the institution does not have the internal expertise to conduct)

**Annex 2**

**APPLICABILITY OF THE GUIDELINES TO OUTSOURCING ARRANGEMENTS**



**Annex 3****MATERIAL OUTSOURCING**

1 An institution should assess the materiality in an outsourcing arrangement. 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:

- (a) importance of the business activity to be outsourced (e.g. in terms of contribution to income and profit);
- (b) potential impact of the outsourcing on earnings, solvency, liquidity, funding and capital, and risk profile;
- (c) 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, encounter a breach of security, confidentiality or compromise of customer information;
- (d) impact on the institution's customers, should the service provider fail to perform the service or encounter a breach of security or confidentiality;
- (e) impact on the institution's counterparties and the Singapore financial market, should the service provider fail to perform the service;
- (f) cost of the outsourcing as a proportion of total operating costs of the institution;
- (g) cost of outsourcing failure, which will require in-sourcing or seeking similar service from another service provider, as a proportion of total operating costs of the institution;
- (h) aggregate exposure to a particular service provider in cases where the institution outsources various functions to the same service provider; and
- (i) ability to maintain appropriate internal controls and meet regulatory requirements, if there were operational problems faced by the service provider.

2 Outsourcing of all or substantially all of its risk management or internal control functions, including compliance, internal audit, financial accounting and actuarial (other than performing certification activities) is to be considered a material outsourcing arrangement.

3 An institution should undertake periodic reviews of its outsourcing arrangements to identify new outsourcing risks as they arise. An outsourcing arrangement that was previously not material may subsequently become material

from incremental services outsourced to the same service provider or an increase in volume or change in nature of the service outsourced to the service provider. Outsourcing risks may also increase when the service provider in a material outsourcing arrangement plans to sub-contract the service or makes significant changes to its sub-contracting arrangements.

4 An institution should consider materiality at both the institution's level and as a group, i.e., together with the institution's branches and corporations under its control.

