



Insights into the EBA outsourcing guidelines

A KPMG Survey in the Financial Sector

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01. Introduction: EBA Outsourcing Guidelines

The European Banking Authority (EBA) guidelines are, as such, not a revolution, but rather an evolution. Aiming for greater harmonization, they are applicable to all regulated banking institutions and provide a set of rules for all outstanding arrangements.

The guidelines can be broken down into three major categories:

1.1 Governance and control requirements

How to have and maintain control at all levels of the organization:

Aiming for a more holistic framework with proper documentation and policies should be the objective.

The outsourcing Register could be an example of one feature that stands out.

1.2 Lifecycle (or process) requirements

This refers to the specific steps to be taken before entering, during and at the ending of outsourcing arrangements (including exit strategies/contingency plans).

1.3 Third party risk management requirements

Institutions are expected to identify, assess, monitor and manage all risks resulting from arrangements with third parties; regardless of whether they are considered outsourcing arrangements or not. Note: the risk assessment provisions in the guidelines apply to non-outsourcing arrangements as well.



To Summarize...

The guidelines are more prescriptive than ever before (even with the principles of proportionally into consideration).

Stricter rules apply to critical or important outsourcing functions than other arrangements.

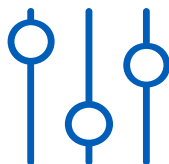
Specific requirements apply on policies, contracts,

documentation, risk assessments, working with third country service providers and intragroup outsourcing.

The guidelines have a direct and indirect impact on the regulated institutions, on the one hand, and on the service providers, on the other – not in scope directly.



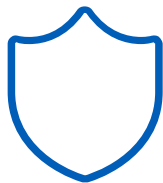
Proportionality & **Sufficient oversight** resources



Strict control and **governance framework** with detailed outsourcing policy



Understanding **Critical or important functions**



Detailed **third party risk** management



Exit Strategy for outsourced critical/important functions



Contingency Plans (substitute or re-integrate)



02. KPMG EBA Survey 2021

Before we look at the results, let’s study the Benelux survey respondent’s profiles, the main outsourcing objectives and the overall confidence in guideline compliance before addressing the three major categories of requirements.

2.1 Respondents Profile

A good sample of institutions (23), very evenly distributed over the Benelux region, answered all 32 survey questions.

There was also a good mix of functions, which is not surprising given the multidisciplinary importance of outsourcing across all business lines. We point out that 30% of the respondents have an outsourcing-related function. This can be directly traced back to one of the aims of the guidelines, namely, to have an

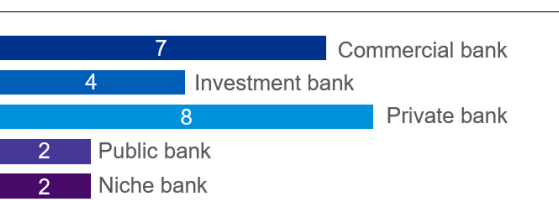
Split per country



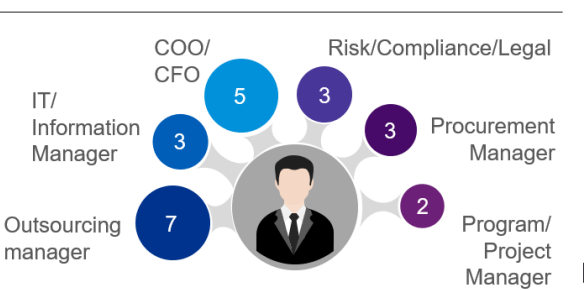
Outsourcing SPOC/function per institution.

We also found out, that 70% of the survey respondents receive services from outside the EU/EAA – such arrangements are subject to additional safeguards under the guidelines, as they should not lead to an undue increase in risk or impair the ability of competent authorities to effectively supervise institutions. They also require appropriate security measures regarding data protection.

Split per type of bank



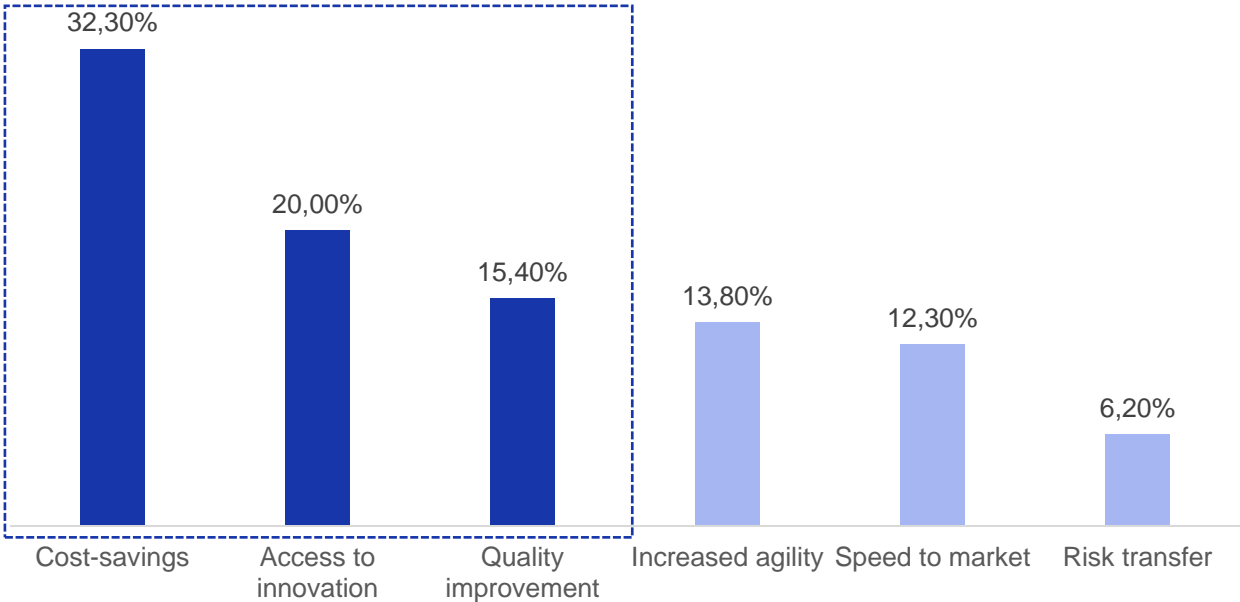
Split per function



2.2 Outsourcing objectives

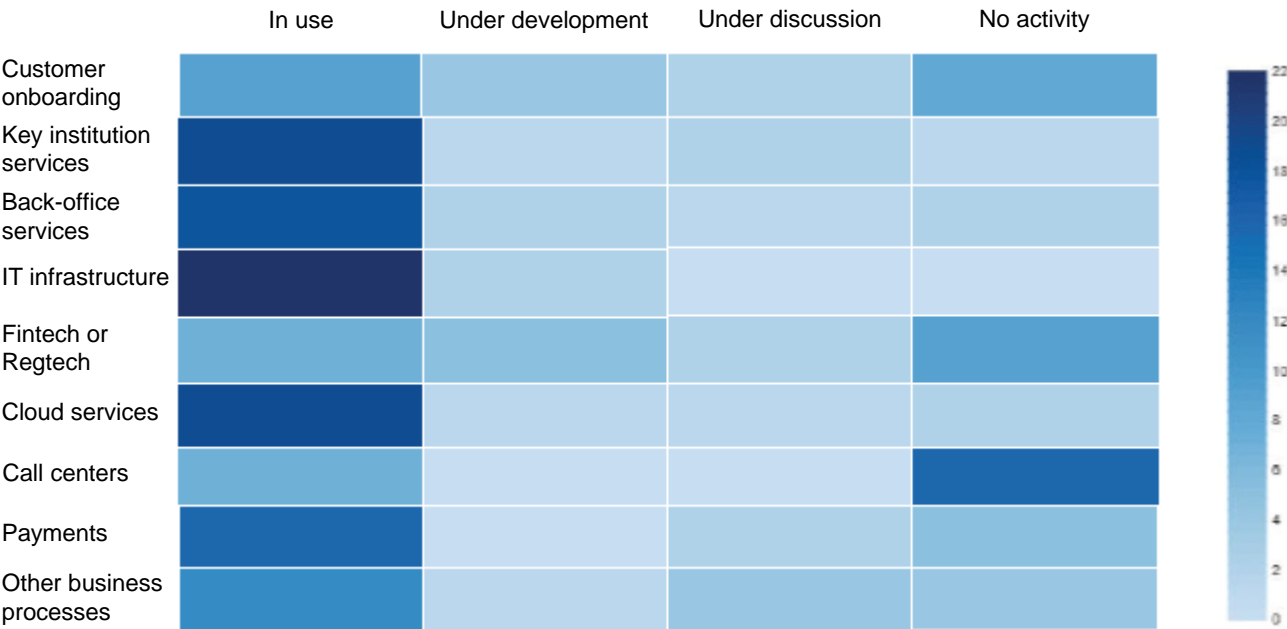
We asked our survey respondents “What are the main objectives for outsourcing? Almost 70%, representing the top three objectives, said: “getting

access to innovation”, “quality improvement” and, the most important one, “cost reduction”.



These responses confirm the EBA’s position that financial services institutions rely more on outsourcing for access to new technologies (e.g. Cloud services) and for key business processes

(e.g. Payments). This is clear in the heatmap presentation below on the areas of involvement and outsourcing solutions usage.



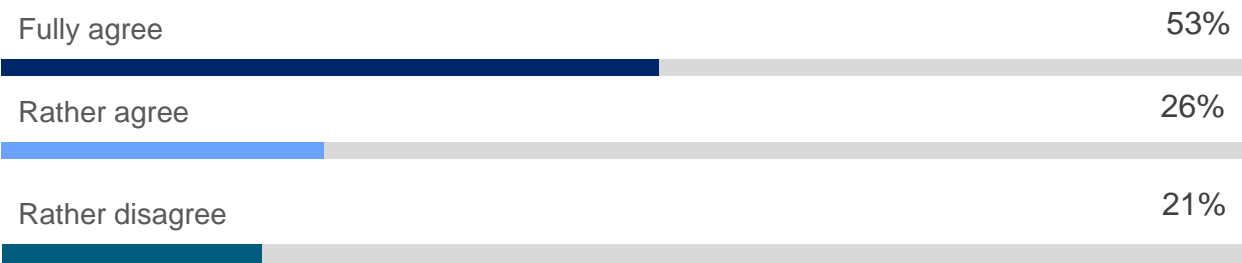
Lastly, let’s analyze intragroup outsourcing arrangements. The leveraging of group synergies is a well-proven way of achieving the aforementioned outsourcing objectives in the financial services industry. However, when looking at the statement

regarding the similar rules/requirements applied to intragroup counterparts, only 53% fully agree on applying comparable rules to external service providers.

This is often due to the trust between parties, but the EBA clarified that proportionality does not mean

that the requirements are inapplicable to intergroup outsourcing.

19 out of 23 respondents engage in intragroup outsourcing

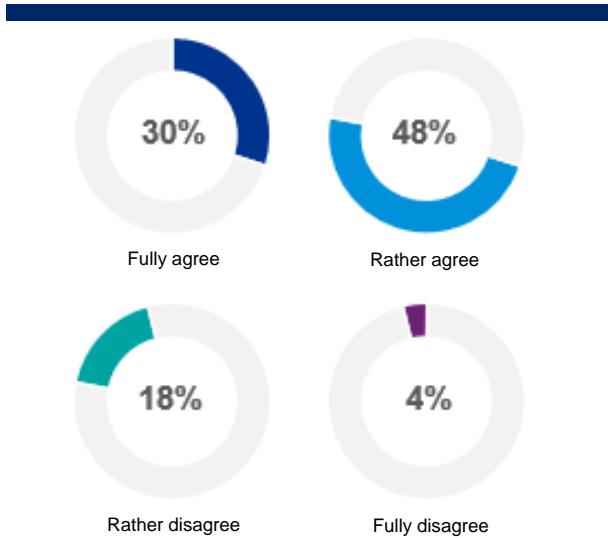


In other words, having a written agreement with an appropriate decision-making process, proper management of conflict of interests, due diligence and recovery and resolution plans are some of the key requirements expected.

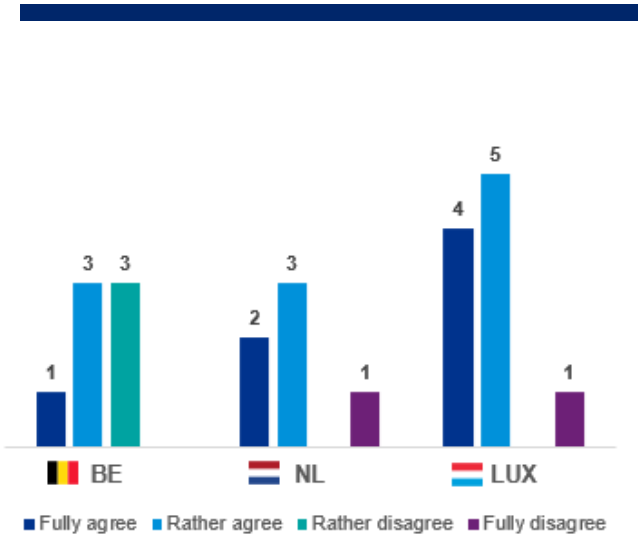
2.3 Outsourcing guidelines confidence

When looking at organizations' confidence in complying with the EBA outsourcing guidelines, only 30% of the respondents feel very confident.

Total sample



Sample per country



“Only 30% of respondents feels very confident their organization is compliant with the EBA outsourcing guidelines”

We notice some differences when we take a closer look:

Among the countries, the most confident are LUX and NL institutions (a reflection of a more mature outsourcing environment), as opposed to the more conservative BE institutions. Traditionally, outsourcing plays an important role in the LUX Financial market (especially for the many subsidiaries, which are more reliant on outsourcing

as seen in the illustration above). In addition the CSSF (the Luxembourg agency that supervises the financial sector) amended and aligned sector instructions soon after the EBA published its guidelines.

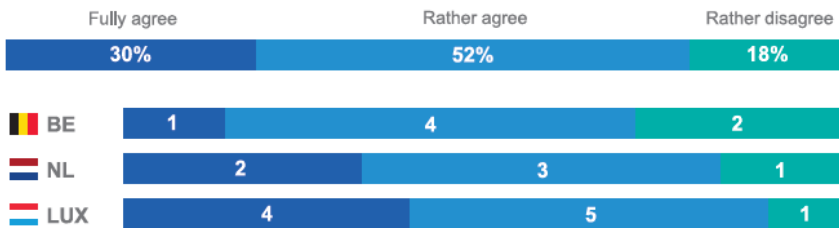
It will probably not surprise you that outsourcing managers were the most confident compared to other functions, on the subject of outsourcing.

03. KPMG EBA Survey 2021 - Results

Let’s have a look at the Control and Governance, the Lifecycle management and the third party risk sections of the survey.

3.1 Control and governance framework

“You are able to properly monitor, document, report and decide on all key service providers.”



Management body yearly review of critical/important arrangements



Up-to-date outsourcing register



Clear responsibilities on documentation and control of outsourcing arrangements

One of the essential control and governance rules of outsourcing is that management remains responsible for outsourced arrangements at all times.

Approximately 70% of Benelux institutions have reservations about their ability to properly monitor and document all key service providers, pointing to a major challenge/improvement area for financial institutions.

Management body involvement

One important element in achieving a more holistic approach within the institutions is knowing which type of outsourcing arrangements are in place, and if they still deliver the expected results/quality.

While all banks think that this makes sense, only 35% involve management in doing a yearly review of all critical aspects concerning key service providers. We notice that the business case/management body approval is often only made/sought in the pre-analysis or approval phase; but often not reviewed later. Institutions that rather agreed often apply a lower frequency or do not involve management.

On having and maintaining an up to date outsourcing register

This is one of the new documentation requirements and could be a valuable information source for management.

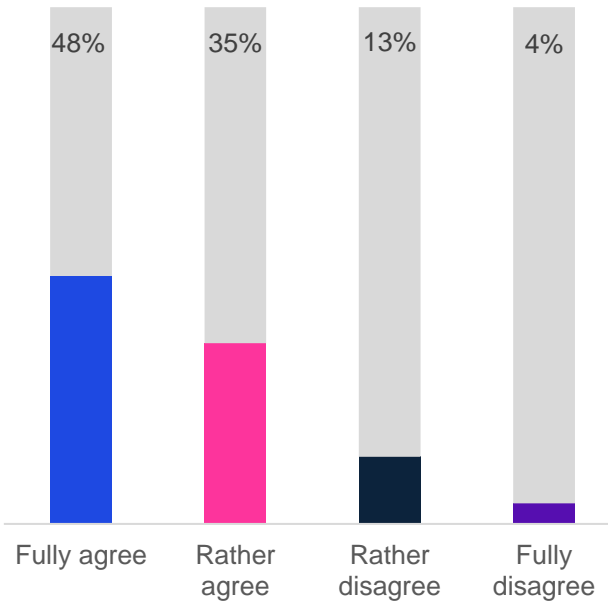
Only 52% of respondents fully agree that their register holds all the information it should, including GDPR. This is understandable since that register is more than a list of contracts and needs to contain quite a bit of information on all the outsourcing arrangements (not only critical and important ones) and should be readily available for the competent authorities.

Regarding the Outsourcing policy

65% of the responders find the roles and responsibilities for documentation and control of outsourcing arrangements to be clearly assigned within their organization.

3.2 Outsourcing Lifecycle Management

“Appropriate **business continuity plans** with regard to the outsourcing of critical or important functions are in place and maintained”

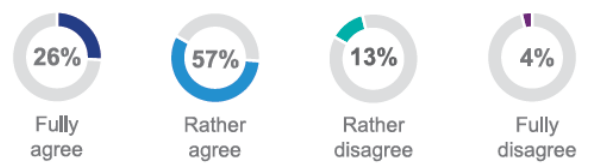


From governance and control perspective, we established that it is important to have an ongoing follow-up and enough in-house expertise to assess arrangements.

In the Lifecycle section we will look at some of the essential steps.

Proper documentation for institutions includes

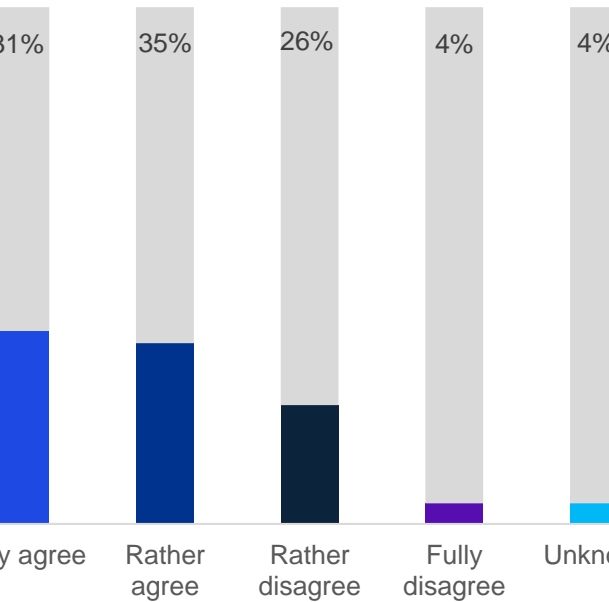
“Appropriate **business continuity plans** with regard to the outsourcing of critical or important functions are in place and maintained”



“Do you **actively test** (yearly or higher frequency) your critical business processes with the key service providers?”



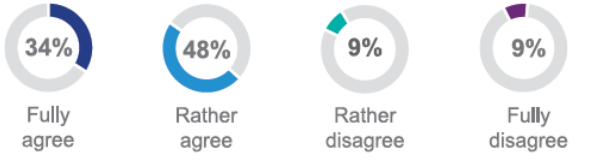
“For the outsourced critical or important functions (covering business processes and/or IT systems) a documented exit strategy exists.”



having appropriate business continuity plans and exit strategies including step-in risk or re-integration. These are all part of having a plan B when disaster strikes.

The responses indicate that banks in general understand the importance of having such business continuity plans but need to look for alternatives right from the start of such arrangements.

“For the outsourced critical or important functions (covering business processes and/or IT systems) a documented exit strategy exists.”

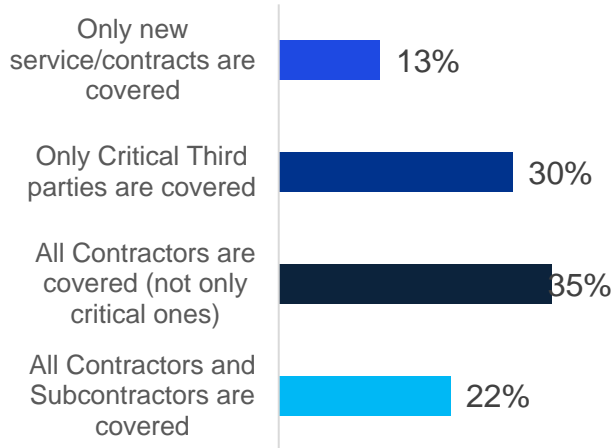


Based on the responses received, we conclude that contracts are still under review and that the bigger suppliers get a lot of questions, although they are not directly impacted by the guidelines themselves.

While continuous monitoring is the goal, in reality, it is often limited to the beginning of the relationship. This also applies to active testing, as opposed to simply relying on reports of the service providers.

“How would you describe the **current risk coverage** of your contractors/subcontractors?”

Non of the respondents chose the following option: “All Contractors and Subcontractors and Subcontractors of Subcontractors (Fourth or Fifth parties) are covered”

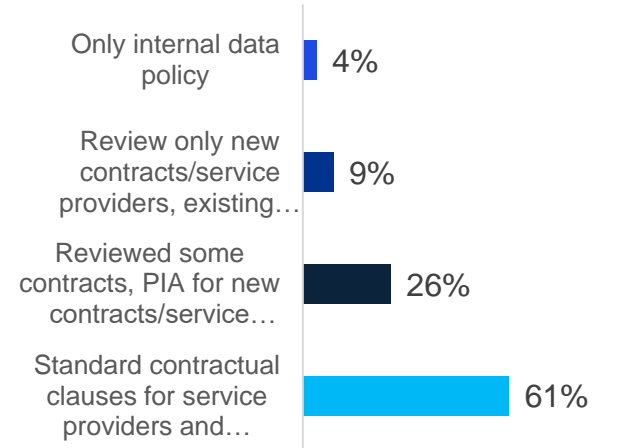


3.3 Third party Risk Management

For the third category of requirements, we look at some aspects of third party risk management. Data privacy has clearly gained importance and from a third party risk management perspective, institutions try to monitor most of their contractors.

“What level of **data protection safeguards** apply at your company?”

The majority of the banks in the sample chose the option which provides for the strongest data protection.



4. Challenges Regarding The Guidelines

What are the biggest challenges, when looking at our KPMG field expertise, what can we learn from the survey, and what are the biggest areas of concern listed by the institutions themselves?

- Not having enough resources to monitor, a lack of expertise/knowledge to manage and to keep everything up to date (often large number of service providers) and to perform active testing
- Having a common understanding/identification of outsourcing – especially for Intragroup institutions active in different jurisdictions or sectors (Bank/Insurance groups) concerning the concept of outsourcing and proportionality and criticality
- Roles and responsibilities: While policies may be clear, roles and responsibilities are often not sufficiently defined on the operational level, there is

not enough ownership on intragroup outsourcing, and a combining of the guidelines with the existing sourcing policy

→**Having a SPOC is a good idea**

- Contract reviews: reviewing and ensuring contracts comply with guidelines, given the broad definition (own determination), this means that most contracts end up being flagged as critical or important – also getting audit rights with subcontractors is not as straightforward as it should be

All these elements influence the outsourcing register and the ability to keep it fully up to date and properly documented.

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