

Avantage Reply Annual Risk Symposium

Outsourcing Risk Management & Oversight: Implementation in a GSIB

25 November 2015



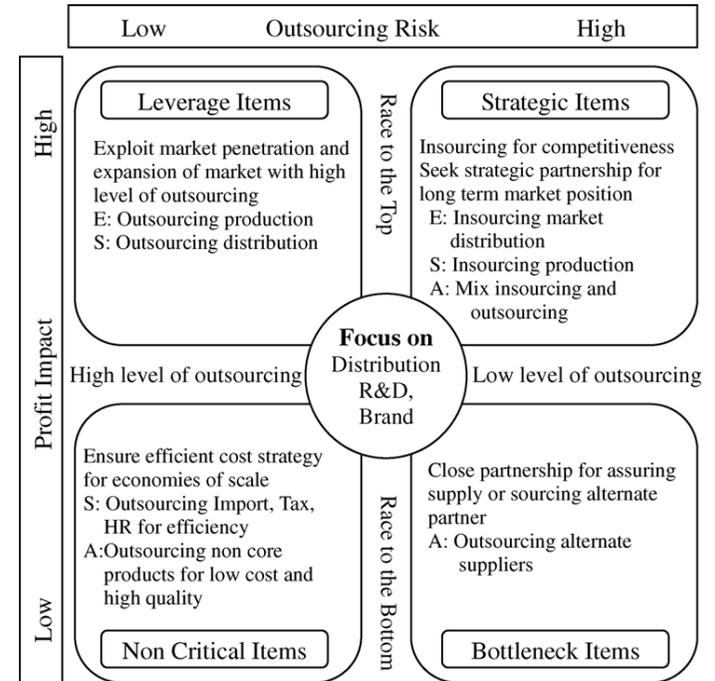
The outsourcing landscape

Introduction (Mary Poppins quote)

Sometimes a little thing can be quite important...

What outsourcing banks are doing?

Various models...



What is outsourcing risk? Which are the various forms?

Confidentiality is the biggest perceived risk.

Another risk is loss of control. At the start of an outsourcing relationship, there is no trust borne of experience.

The risk of being dependent on a single provider can be mitigated by using more than one provider. *Ex: in 2009, Satyam, admitted to falsifying company accounts. It was practically destroyed as an outsource provider, with devastating consequences for those companies who relied solely upon it for their IT services.*



Having more than one provider also produces constructive competitive tension.

Risk of raising complexity caused by not knowing who's doing what or who's responsible for what. *Ex: Chain or cascade outsourcing*



Importance of look through capacity



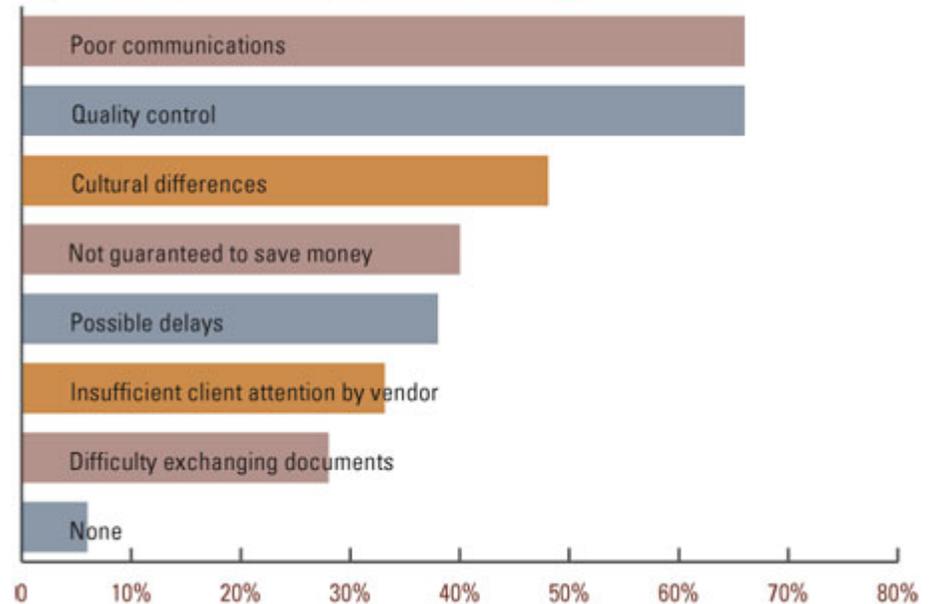
What goes wrong?

Famous outsourcing disasters



A special mention of chain outsourcing and IT

Drawbacks of offshore outsourcing



What are the main themes of outsourcing regulation?

Regulation naturally follows from the above issues

Legal entities and the wider group

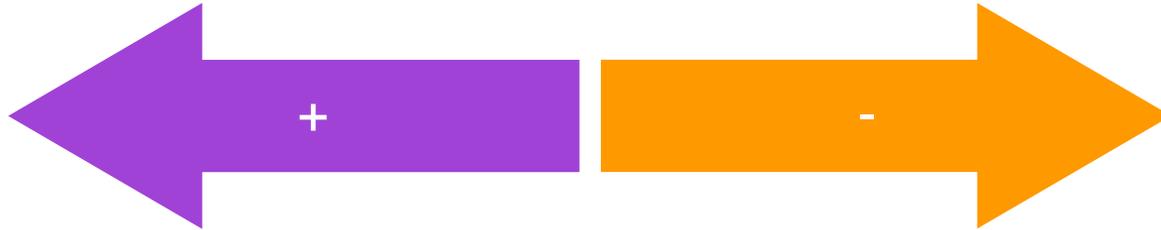
JSTs analyse the implications of outsourcing of key processes and activities. As a principle, the decision of outsourcing shall not be approved by the relevant supervisor or even reported to it when the activities are non-material.

JSTs assess the quality of the outsourcing management when factoring the impact of this aspect.

They assess the implications of outsourcing in the operational risk profile, and in particular the effect of the chain outsourcing in its assessment of the operational risk profile of the bank. They assess negatively when the bank has decided to outsource material activities or activities that are considered key from a risk management perspective.



Overall SREP score and rating example



1-Low risk	2-Low to Medium risk	3-Medium to High risk	4-High risk
Insignificant relevance of outsourcing, also compared to peers	Outsourcing activities limited, without cascade outsourcing affecting key areas	Good performance of outsourcing activities, but affecting key areas	Poor performance of outsourcing activities

Remember: A bad organisation cannot be mitigated by capital buffers, but by qualitative measures!



How to work on outsourcing in the modern regulatory environment as a GSIB

Outsourcing to the group and outsourcing to third parties.

What are the consequences for those involved?

What is my personal liability as a board member?

How regulation is changing custodial banks

What are the rules?

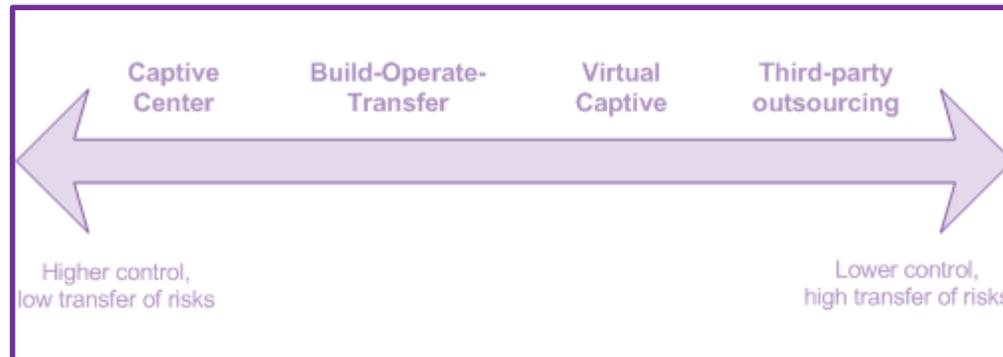
Inside the mind of an auditor



Outsourcing to the group and outsourcing to third parties.

The bar is raising! Intragroup exposures are perceived as a risk to financial stability

Operational risk profiles of TPG and inter-affiliate arrangements are different: the ECB takes generally a favorable view on liquidity waivers for significant banks...



Don't wait to be remediated!



Main other themes

Custodial Banks: a historical perspective.

IT: the cornerstone of outsourcing arrangements.

High cost of doing too little too late.

Importance of house rules and Path to green



Q & A & Thank you!

