Frequently Asked Questions
Outsourcing

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This document supplements the policy document on *Outsourcing* by providing an explanation to interpretation issues likely to be faced by financial institutions in implementing the requirements.

The questions are grouped according to the requirements of the policy document.

Responsibilities of the board and senior management

1. **Are outsourcing arrangements with group affiliates required to be included in the register described in paragraph 8.6(f)? [Paragraph 8.6(f)]**

   Yes, the register should capture all outsourcing arrangements with third party service providers and group affiliates.

2. **Can the register of outsourcing arrangements be maintained at the group level? [Paragraph 8.6(f)]**

   Yes, however each financial institution remains accountable for ensuring that it has ready access to an entity-level register dedicated specifically to the outsourcing arrangements it has entered into, and that can be made readily available to the Bank upon request.

Assessment of service provider

3. **Is a financial institution allowed to rely on an affiliate's assessment of an existing or potential service provider as part of their due diligence? [Paragraph 9.3]**

   While the outcomes of an assessment or review by a group affiliate may be taken into consideration as part of a financial institution's due diligence process, they cannot constitute the sole check on the service provider.

4. **Is a financial institution required to ensure that its due diligence process covers the items stipulated in paragraphs 9.3(a) to 9.3(i) at each renewal of an arrangement? [Paragraph 9.3]**

   The Bank expects the financial institution to consider all factors under paragraph 9.3 in the due diligence process of a service provider, including at the renewal of an existing arrangement. Results from the continuous assessment performed on the service provider in accordance with paragraph 8.6(c) may be used to inform the due diligence process.

5. **What is the difference between 'undue risks' stated in paragraph 9.3(g) and 'concentration risk' to a particular service provider in paragraph 9.3(h)? [Paragraphs 9.3(g) and (h)]**

   Paragraph 9.3(h) is intended to capture risks that may arise from the concentration of services provided by a single service provider, as disruption of services may then have a compounding impact on the financial institution. Paragraph 9.3(g) refers to circumstances where similar or connected activities performed by the service provider, regardless of the number of arrangements, may result in sub-optimal outcomes for the financial institution. For example, a financial institution should not be obliged to pay above-market prices for additional services as a result of an existing arrangement with the same service provider.

Protection of data confidentiality

6. What are the expectations of the policy with respect to an outsourced activity which involves information that is publicly available? [Paragraph 9.9]

A financial institution is expected to comply with the data protection requirements in the policy document with respect to any information shared with the service provider, including information that is available in the public domain.

7. How does a financial institution ensure that the data protection standards of a location outside Malaysia are comparable to those within Malaysia? [Paragraph 9.9(d)]

The Bank expects, at the very least, for there to be a national legal or regulatory framework governing data protection (e.g. Malaysia's Personal Data Protection Act 2010) in jurisdictions where a financial institution's data is stored or processed.

8. Is a financial institution's information required to be segregated at all times? [Paragraph 9.9(e)]

The requirement for segregation of a financial institution's data is applicable only to data storage (i.e. data at rest), and not during data processing (i.e. data in motion or in use). This, however, is subject to any other related regulatory requirements issued by the Bank.

Business continuity planning

9. What are the Bank's expectations with respect to a financial institution's business continuity planning in the scenario where network connectivity is not available? [Paragraph 9.13]

Given the widespread reliance on network or internet connectivity in a financial institution's operations, the Bank expects a financial institution to have, at the very least, alternate network connections as part of their business continuity strategy in the event of a temporary or major disruption to their primary network connection.

Regulatory process

10. What constitutes a significant modification to an outsourcing arrangement? [Paragraph 12.1]

A significant modification to an outsourcing arrangement is one that materially changes the level or type of risk the financial institution is exposed to with respect to the arrangement (e.g. geographical risk or political risk). This includes, amongst others, change in service provider or change of country location.

11. Can the outsourcing plan be prepared at the group level [Paragraph 13.1]?

No. The Bank expects each financial institution to prepare, maintain and retain accountability for its entity-level outsourcing plan.

12. Is a financial institution allowed to submit an outsourcing application under paragraph 12.1 prior to submission of the outsourcing plan? [Paragraph 12.1 and 13.1]

Unless warranted by exceptional circumstances, the Bank expects a financial institution to submit the outsourcing plan for the financial year prior to any submission of outsourcing applications. This should be taken into account by financial institutions when developing and finalising their outsourcing plan.

Arrangements excluded from scope

13. For insurers and takaful operators, do investment management activities undertaken by a third party constitute outsourced activities? [Appendix 2]

Investment management activities are considered outsourced activities, and hence are subject to the requirements in the policy document.

Material outsourcing arrangements

14. What are examples of arrangements involving internal control functions that would not be considered as material outsourcing arrangements? [Paragraph 5.2 and Appendix 3]

The Bank does not intend to capture administrative arrangements that are logistical or operational in nature, and that do not impair internal control functions in the event of disruption. For example, document archiving and tracking of accreditation requirements.