

# ***PwC Straight Away - MAS Guidelines on Outsourcing***

## ***Background***

The Monetary Authority of Singapore (“MAS”) released the much anticipated Guidelines on Outsourcing on 27 July 2016 with an immediate effective date. These represent updated requirements on the previously issued MAS Guidelines on Outsourcing and introduce guidance on cloud services. The MAS Notice on Outsourcing remains in review.

The Guidelines define a set of expectations by MAS in relation to risk management on Outsourcing arrangements for Financial Institutions (“FIs”). These include, board and senior management responsibility, requirements for evaluation of risk, assessment of service providers, outsourcing agreements, confidentiality and security, business continuity management, monitoring and control as well as audit and inspection.

## ***Key points to note***

### ***Effective Date is 27 July 2016***

Key immediate focus areas for Financial Institutions will be:

- **ensuring a robust risk-based outsourcing governance framework** is in place to effectively manage outsourcing arrangements covering direct third party, sub-contracting and intra-group. This can leverage group processes, but accountability will reside locally. A risk-based approach should be holistic, with the right level of oversight and controls with risk.
- **conducting a self-assessment of all** existing outsourcing arrangements against the Guidelines **within the next three months**.
- **rectify deficiencies** identified **no-later than 12 months** from the effective date.

This leaves little time to remediate (i.e. 9 months), assuming an assessment can be done in three months.

### ***Cloud Computing***

MAS defines **Cloud Services (“CS”) as a form of outsourcing**. MAS highlights that “institutions should take active steps to address the risks associated with data access, confidentiality, integrity, sovereignty, recoverability, regulatory compliance and auditing. In particular, institutions should ensure that the service provider possesses the ability to clearly identify and segregate customer data using strong physical or logical controls.”

Of key note is that logical segregation is specifically called out which enables more efficient use of IT security to better protect and manage data. *MAS also removes the explicit statement in regard to “isolation and clearly identify customer information”, however this does not reduce the obligations of institutions to ensure data is appropriately segregated and that logical security is an acceptable form.*

### ***Material Outsourcing Arrangement***

The Guidelines also provided a specific definition of “material outsourcing arrangement” which has been expanded to include customer information.

“**material outsourcing arrangement**” means an outsourcing arrangement:

- (a) which, in the event of a service failure or security breach, has the potential to either materially impact an institution’s:
  - (i) business operations, reputation or profitability; or
  - (ii) ability to manage risk and comply with applicable laws and regulations
- (b) which involves customer information and, in the event of any unauthorised access or disclosure, loss or theft of customer information, may have a material impact on an institution’s customers.

## Contact us

### Mark Jansen

Partner – TPT leader  
+65 6236 7388  
mark.jansen@sg.pwc.com

### Kyra Mattar

Partner – Banking  
+65 6236 3850  
kyra.mattar@sg.pwc.com

### Ervin Jocson

Director – OSP  
+65 6236 7740  
ervin.jocson@sg.pwc.com

### Ang Sock Sun

Partner – Insurance  
+65 6236 3638  
sock.sun.ang@sg.pwc.com

### Paul Pak

Partner – Head of Asset &  
REIT Mgmt, RAS  
+65 6236 3288  
paul.s.pak@sg.pwc.com

## More information

MAS Outsourcing  
Guidelines



ABS Guidelines for OSP's



The Guidelines now define that “**Customer Information**” excludes any information that is **public, anonymised, or encrypted in a secure manner** such that the identities of the customers cannot be readily inferred. This provides further opportunities around use of cloud services such as IaaS, SaaS and PaaS.

Institutions should consider potential consequences of a breach. The arrangement may still be deemed as material if it impacts reputation or where the information lost “may” have a material impact on customers.

### Monitoring and Control of Outsourcing Arrangement

*Removal of expectation for FI's to pre-notify MAS of material outsourcing arrangements.* Institutions are required to maintain a **register** of its outsourcing arrangements which is to be submitted to MAS, **at least annually** or upon request.

**Periodic reviews**, at least on an **annual basis**, on all **material** outsourcing arrangements. This is to ensure that the institutions outsourcing risk management policies and procedures, and these Guidelines, are effectively implemented.

### Audit and Inspection

An institution should ensure **that independent audits and/or expert assessments** of all its outsourcing arrangements are conducted. *The expectation set out in the consultation paper for audit frequency not to exceed 3 years has been removed.* 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.

It is likely that many service providers, in particular multi-tenant, will be subject to annual reviews by at least one or more institutions. This needs to be undertaken by an appropriately skilled independent party, e.g. External Auditor, the Institution's Internal Auditor or relevant experts.

### Assessment of Service Providers

The requirement for a **due diligence** to be undertaken during the assessment process where arrangements are **new, being changed or renewed and re-performed periodically**. There are explicit expectations around **pre and post implementation** reviews for arrangements which are new or where there is a material changes.

### Outsourcing within a Group

The Guidelines are still applicable to **intra-group arrangements** and cover **sub-contracting**. However, there is allowance for **leverage on Group** wide risk management policy and procedures including due diligence, audit and inspections.

## Who is impacted?

The Guidelines were issued under the relevant provision(s) of the respective Act applicable for FIs including asset managers, banks, brokers, credit card or charge card licensees, financial advisors, finance companies, insurance companies and operators and settlement institutions of designated payment systems and REIT managers.

As there are specific requirements for service providers in the Guidelines, FIs will need their Outsourced Service Providers (“OSPs”) to also adhere to these terms.

## How PwC can help?

PwC has a dedicated team that can help you. PwC has already assisted a number of major institutions in developing outsourcing governance frameworks. PwC is also engaged by multiple service organisations as they seek to be proactive in responding to the expectations of the MAS and the industry as a whole.

In delivering our work, we have developed standardised frameworks for managing outsourcing and rapidly assessing how to meet the requirements. Further our risk based approach helps pragmatically focus on what matters most to help you manage your program efficiently.