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**EBA and
EIOPA guidelines
on outsourcing**

A lot to be done
before the end of 2021



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As of end December 2021 financial institutions will need to be compliant with the **EBA and EIOPA outsourcing guidelines** for all outsourcing agreements.

In this mini guide, we will explain about the guidelines themselves, why you will need a **Sourcing Policy** and the right tools — and who in your organization will have to do what in order to comply.

At With, we help financial institutions redesign their sourcing and operating models, select suitable outsourcing providers, and improve their internal vendor and contract management processes. In other words: **we are here if you need help with your compliance strategy.**

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Towards Vendor and Contract
Management Excellence

Following the EBA and EIOPA outsourcing guidelines, what does it mean to be compliant?

Vendor and Contract Management compliance, when outsourcing to service providers, means:

- **the regulator** is able to supervise financial institutions, particularly regarding critical and important functions that have been outsourced.
- **financial institutions** ensure compliance with EU legislation and regulatory requirements.

These guidelines don't describe specific new outsourcing practice, however, organizations are expected to apply them in a consistent and structured manner.

What does this mean for your financial institution?

Here's what you will need to do:

- Ensure consistent and effective supervision.
- Control and challenge the quality and performance of the outsourced service.
- Perform sourcing risk assessments and ongoing provider monitoring.
- Constantly monitor the performance of your service providers with the main focus on the outsourced critical or important functions. Apply a risk-based approach ensuring the availability, integrity and security of data and information.

Will this cost a lot of effort?

This will highly depend on your current maturity level. If your organization already applies good practices and you have a vendor management model in place to manage your outsourcing contracts, you will be much better positioned to be in control of your outsourced services. For organizations with a lower maturity level, the effort to ensure full compliance will be significantly higher.

Is a simple assessment of whether or not an outsourced function meets regulatory requirements sufficient?

No. You need to actively manage the contractual relationship. This includes evaluating and monitoring the ability of the service provider to fulfill the conditions in the written outsourcing agreement.

What if your organization does not comply?

You will need to explain your reasons for non-compliance with the guidelines to the European authorities.

When is the deadline?

By the end of December 2021.

Need help?

Contact us.



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Whatever you choose to do, you will need a Sourcing Policy to start with

What is a Sourcing Policy?

A Sourcing Policy is a document in which you define the roles, responsibilities, and processes related to outsourcing. It covers the different phases of the outsourcing contract life cycle, focusing on the activities which take place before and after the contract is signed.

It also describes the criteria to identify the critical or important functions. It is important your Sourcing Policy includes clear guidelines on how to perform this assessment, as it forms the basis of the sourcing classification and related monitoring activities.

Why do I need a Sourcing Policy?

Because this is best practice. This document provides the outsourcing framework to all relevant stakeholders within your organization. The specific outsourcing guidelines issued by the authorities prescribe that organizations need to have a structured and robust governance model in place.

How do I build a Sourcing Policy?

Here are the key steps you should take:

- Outline the potential impact of outsourcing a service: what are the different sourcing risk assessments and related risk management activities?
- Define what an effective due diligence check on prospective service providers consists of.
- Describe the procedures for the identification, assessment, management, and mitigation of potential conflicts of interest.
- Provide clear guidelines for the implementation, monitoring and management of outsourcing arrangements. This means the ongoing assessment of the service provider's performance: the adequacy of the delivered service as well as the ability of the service provider to meet the required service levels.

- Clearly set out the approval process of new outsourcing arrangements.
- Clearly describe the obligations of the service provider, including the treatment of confidential data.
- Describe the importance of business continuity plans and the regular testing of these plans.
- Define the process to inform the regulator of any changes related to the outsourcing of critical or important services.



Record-keeping and documentation is one of the key aspects of ensuring compliance so you will also need tech and tools

To ensure the operational management and follow-up of all the required compliance elements it is important to ensure sufficient resources are allocated. Making use of the right tooling and technology adds significant value. Here's why:

- You need to document and monitor all outsourcing arrangements in your contract portfolio.
- This record-keeping and registration needs to be completed for all newly signed as well as for all your existing outsourcing contracts.
- All outsourcing arrangements need to be regularly updated with the outcome of latest risk assessments, performance monitoring like dashboards and service levels, minutes of meetings, audit reports, testing reports, etc.

- As part of your risk management framework, you should maintain an updated register of information on all outsourcing arrangements.
- You should appropriately document all current and existing outsourcing arrangements, distinguishing between the outsourcing of critical or important functions and other outsourcing arrangements.
- Depending on the classification of your sourcing contracts, more contract data needs to be registered and additional risk management and more regular provider performance monitoring needs to be foreseen.
- You will also need to maintain the documentation of ended outsourcing arrangements within the register and the supporting documentation for an appropriate period.

Your register should include information for all existing outsourcing arrangements. Don't focus on the bare minimum.

Minimum register requirements:

- Contract data: start date, next contract renewal date, end date and a brief description of the outsourced function, including the data that are outsourced and whether or not personal data have been transferred to a service provider.
- Whether or not the outsourced function is considered critical or important: a brief summary of the reasons why the outsourced function is considered critical or important, and if the outsourcing is cloud-based or not.
- The location where the outsourced data are held.
- If subcontracting is applicable.
- The date of the most recent risk assessment and a brief summary of the main results.
- The dates of the most recent and next scheduled audits.
- Identification of alternative service providers.
- The date when the regulator has been informed of the critical or important outsourcing.

You could use an Excel Spreadsheet. But why make it difficult if there is an easy solution?

There's a number of reasons why keeping all the documentation stored centrally in a dedicated tool or database is a good idea.

- It makes reporting easier and enables an overview of regular updates.
- It allows you to produce "in control" reports for service review meetings, sourcing committees, and management boards but also for required reports to the outsourcing authorities.
- Audit announced? Count on your database to provide insight in all contract monitoring related evidence.
- The tooling you use should be accessible to all business units throughout your company. It is the business contract owner's role to ensure the outsourcing contracts within his or her responsibility are managed in such a way that the organization can demonstrate full control at all times and this through every phase of the contract lifecycle.
- The documentation requirements for the registration of outsourcing contracts contain static contract data as well as recurring data. This means that when registering a contract, some data will be a one-off entry and other data fields will require regular updates throughout the contract lifecycle.

To do this efficiently, select a tool that will help you to easily register your contract data, to plan, monitor and store evidence of your recurring activities. This way, you will be sure not to miss any recurring deadlines. Your register will always be up to date and complete and you won't have to go through a lot of manual effort, as these are all fully automated activities.



SourcingCockpit

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There's enough work for everybody. Here's our take on who should do what.

These are the different key players and what we think should be their role in ensuring full outsourcing contract compliance.

Business contract owner

— Responsible and accountable for the end-to-end processes. Needs to ensure the compliance conditions are met on an ongoing basis, meaning that he or she identifies and manages all sourcing-related risks, and that provider performance and related service levels meet expected service targets.

— In the lead for contract management related activities.

— Ensures timely and proper identification, assessment and management of possible conflicts of interest.

— Oversees day-to-day management of all risks associated with his or her outsourced service.

— Oversees and monitors decision-making associated with his or her outsourced service.

— Responsible for the design and implementation and overall performance of the sourced service.

Procurement

— In charge of qualifying and selecting service providers.

— Accountable for ensuring the procurement process is being followed.

— Provides input and advice on the external options to the business contract owner.

— Delivers a compliant outsourcing contract to the business contract owner.

— Makes sure contract management activities are regularly executed. Responsible for maintaining a register of all outsourcing agreements, preparing reviews of the performance of strategic service providers.

Vendor and contract manager

— Monitors and safeguards completeness of contract register data and documentation during the entire contract life cycle. The register can be maintained in a vendor management tool in which case a dedicated role oversees that all involved stakeholders actively play their role in the entire process.

— Makes sure the business contract owner performs the regular register updates for recurring activities.

— Prepares Operational Compliance Dashboard (OCD) and Procurement Dashboard on a regular basis.

— Connects with the management body when necessary.

Legal

— Provides compliant contract templates and outsourcing frameworks covering all outsourcing contract requirements.

— Provides legal assistance and legal advice to the business contract owner and procurement.

— Intervenes in legal matters with the service providers during the contract lifecycle.

Risk management

— Provides sourcing risk assessment templates and necessary checklists.

— Provides support to risk assessments.

— Provides an overall risk opinion on the outcome of the risk assessment.

Quick recap: There's a lot to be done before the end of next year.

The good news is you don't have to do it all by yourself

If you want to comply with the new EBA AND EIOPA guidelines on outsourcing by the end of next year, which you absolutely do, you have your work cut out for you.

Depending on the maturity of your organization you'll need to completely set up or finetune a sourcing policy, make decisions on tooling and technology, and start thinking of a way to store data in a way that allows automated input and easy access.

From contract owners all the way to procurement, vendor management, risk management, and legal, many people in your organization will soon have to take on new responsibilities to ensure full compliance in the brave new world after December 2021.

If you need a helping hand or guidance, count on us. Whether it is to help you make decisions, carry work load, or just to assess the decisions you have made and confirm you are on the right track. Getting the most out of strategic sourcing and vendor relationships is what we've always done, and we are more than ready to help you do it now that you need it most.

Don't hesitate to give us a call!



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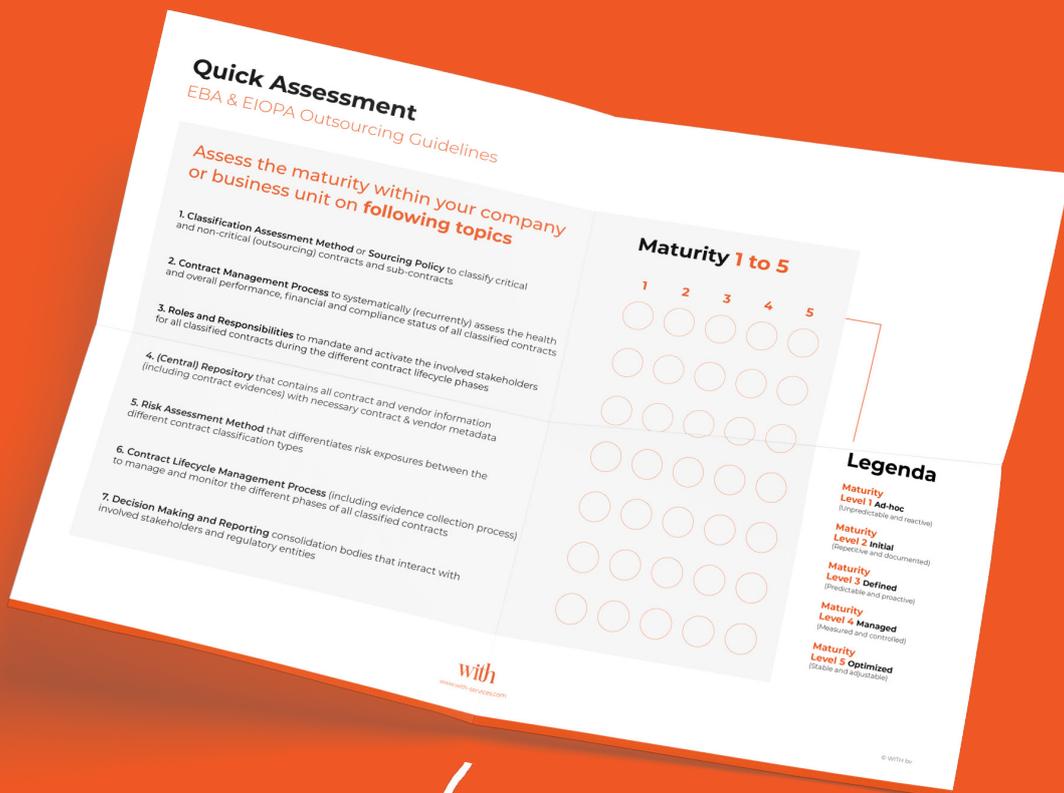
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