



Breakfast session on IT & Business Process Outsourcing

EBA Outsourcing Guidelines Webinar Sessions

15th of June 2021 – 09h00 - 10h00

Your speakers of today



Georgios Mihailidis

Georgios is a Director in KPMG's Risk & Regulatory Advisory team in Belgium. He is, amongst others, specialized in the improvement of end-to-end flows of financial institutions, complex core banking projects, and business process outsourcing as well as an EBA Outsourcing guidelines expert.



Paul Olieman

Paul is an Executive Director in the Digital Enablement practice of KPMG Advisory Belgium. With over 20 years of international experience, he has assisted clients in many technology-led transformations as well as IT Strategy & IT Outsourcing engagements.



Maarten Visser

Maarten is a Manager in the Digital Sourcing practice of KPMG Advisory Netherlands. He has extensive experience in both the public and private sector in amongst others: sourcing strategies, service provider selection & governance.

Content

1. Introduction & Survey Results 2021
2. Outsourcing insights & how KPMG can help
3. Client case
4. Q&A

01

Introduction & Survey Results 2021 **EBA Outsourcing Guidelines**

EBA outsourcing guidelines

Key focus areas

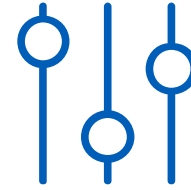
Control and governance framework

Outsourcing lifecycle management

Third party risk management (TPRM)



Proportionality & **Sufficient oversight** resources



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



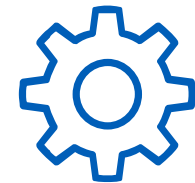
Understanding **Critical or important functions**



Detailed **third party risk** management



Exit Strategy for outsourced critical/important functions



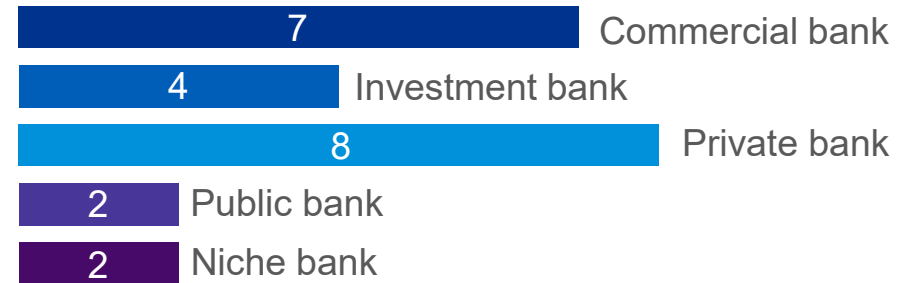
Contingency Plans (substitute or re-integrate)

Profile of Respondents

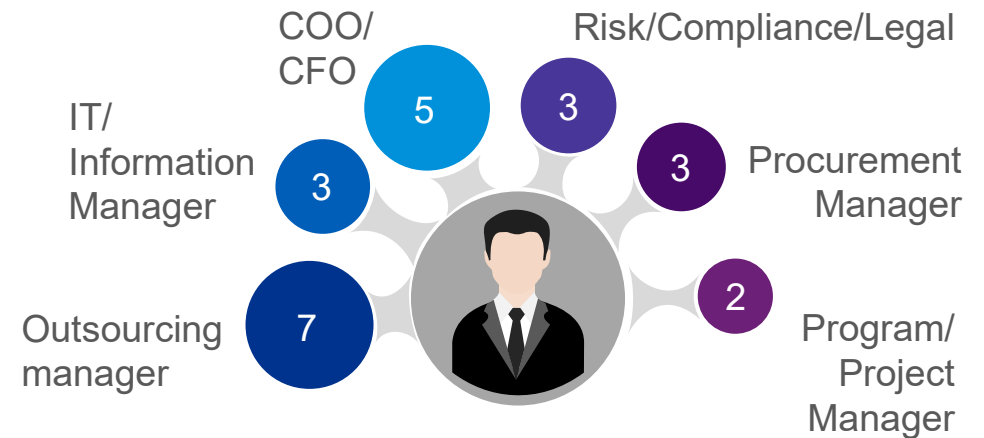
Split per country



Split per type of bank



Split per function



“70% of the survey respondents receives services from outside the EU/EEA”

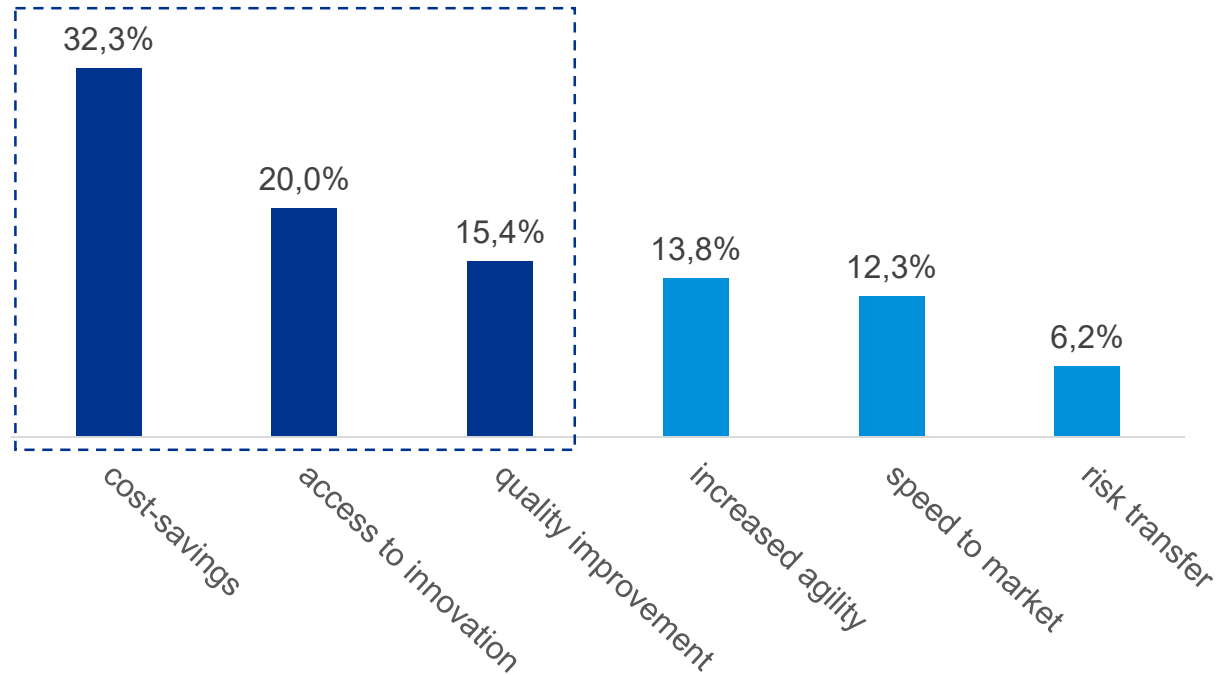
Key findings

Outsourcing objectives



“What are the **main objectives** within your company for outsourcing?”

Only 26% of respondents says they fully achieve these objectives



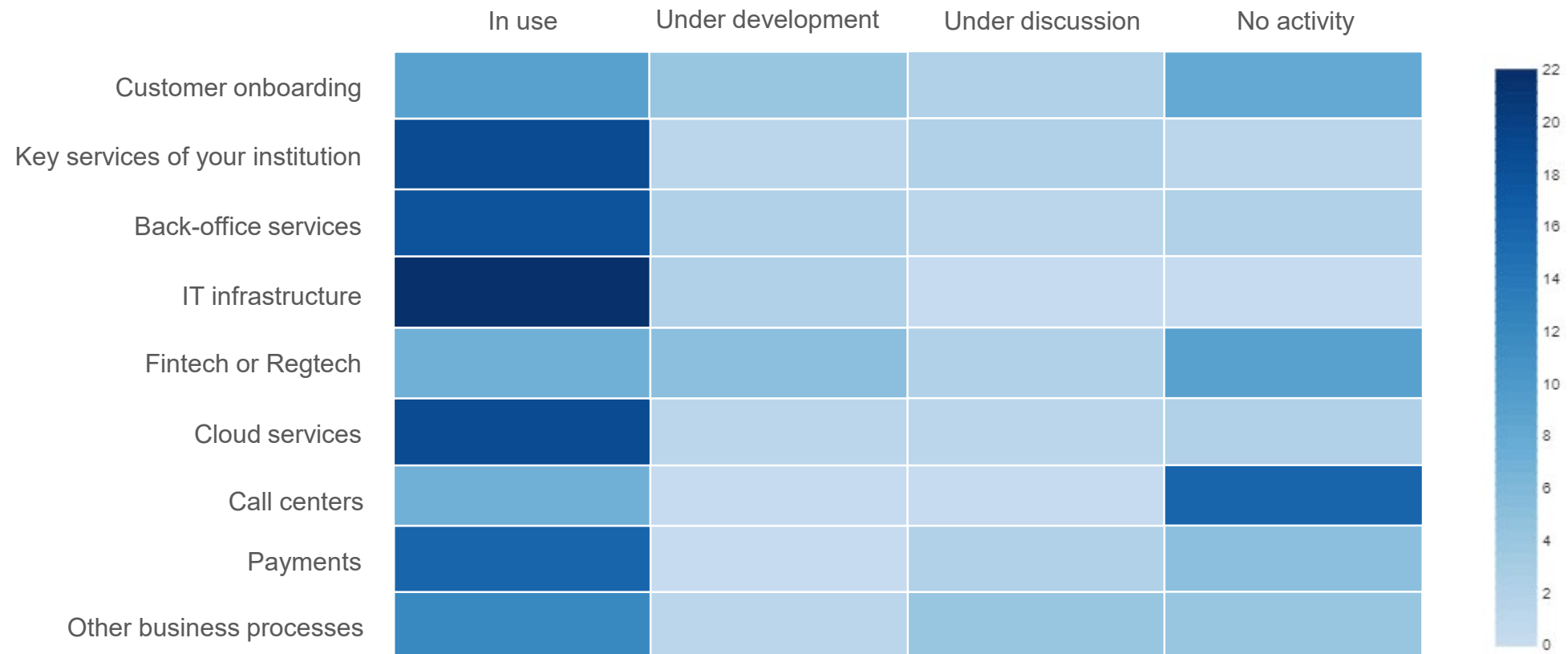
“Outsourcing is seen as a quick way to get access to innovation, quality improvement and cost reduction”

Key findings

Outsourcing objectives



“What is the level of **involvement** at your company to use outsourcing solutions in the **following areas?**”



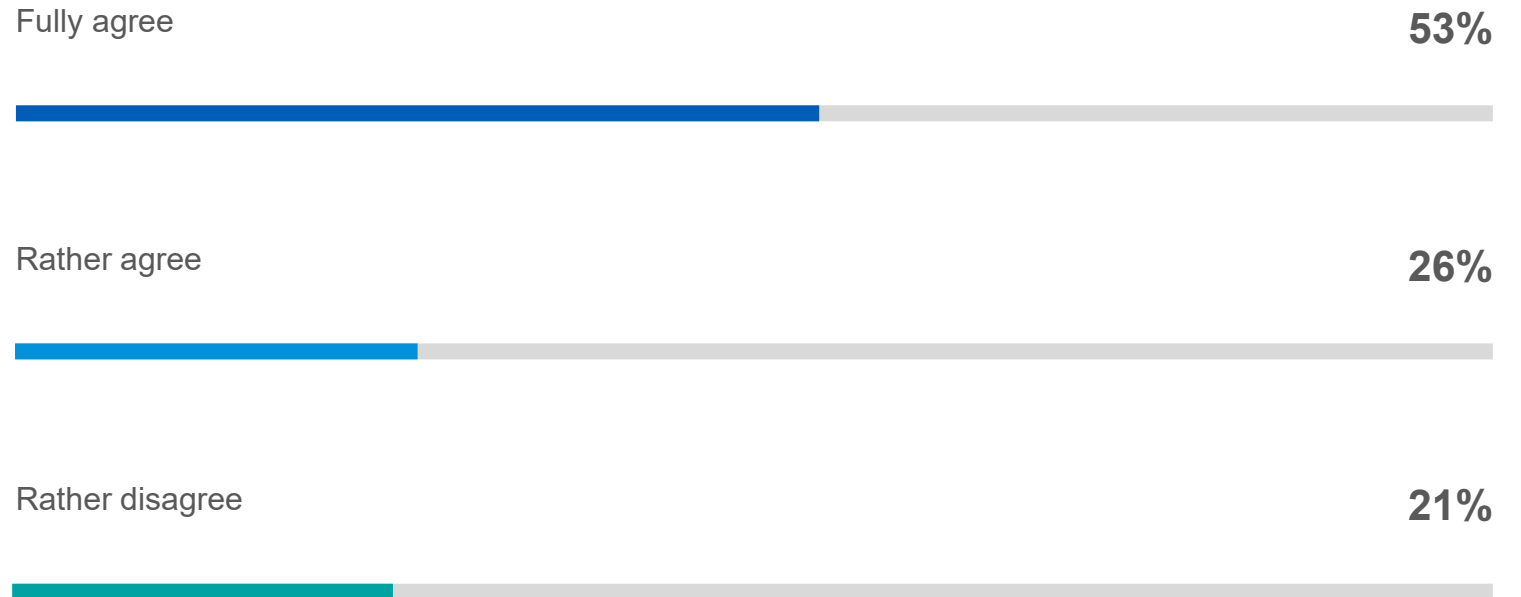
Outsourcing objectives



“All the banks that are part of a group structure engage in **intragroup outsourcing**”

19 out of **23** respondents engage in intragroup outsourcing

“Similar rules and requirements are applied to **intragroup outsourcing** arrangements as to outsourcing arrangements with external service providers.”



When looking at the 19 banks that engage in intragroup outsourcing:

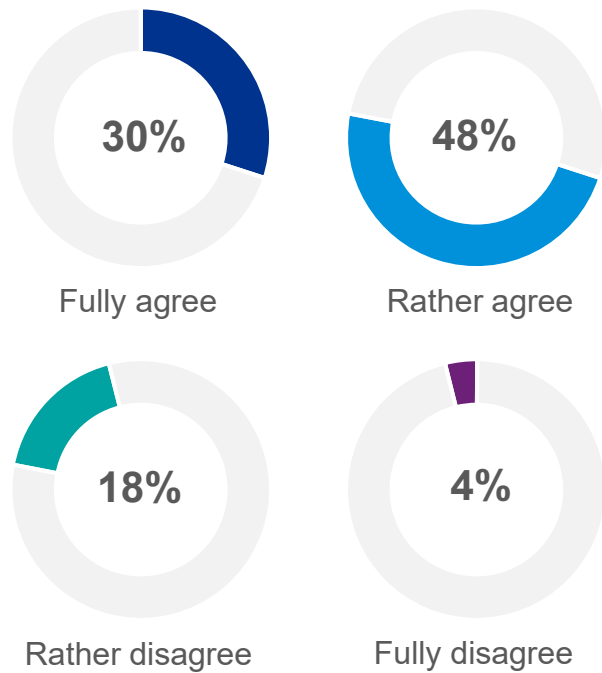
Key findings

Outsourcing guidelines confidence

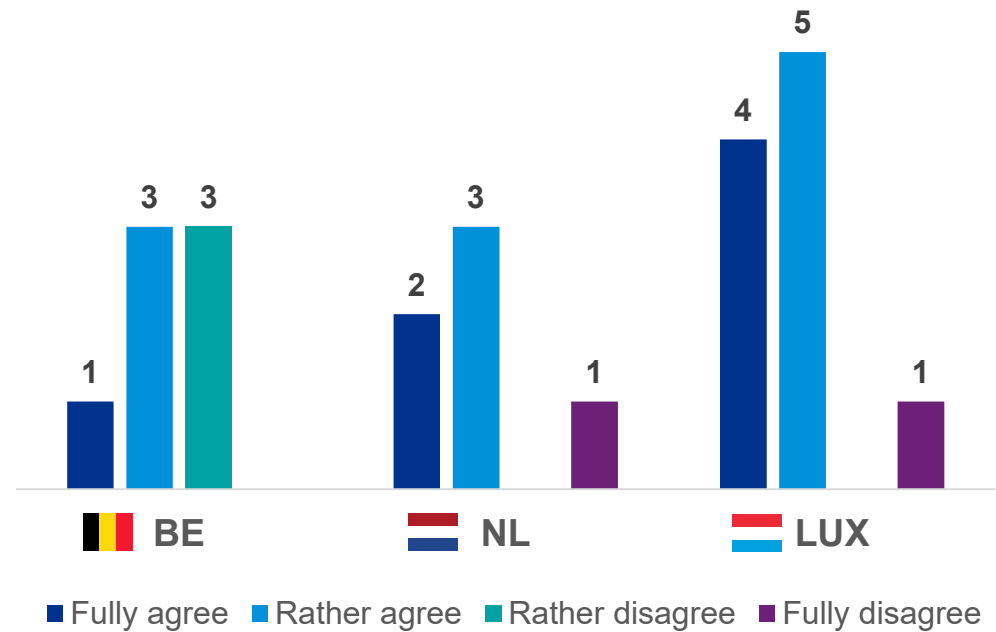


“Only 30% of respondents feels very confident their organization is **compliant** with the EBA outsourcing guidelines”

Total sample



Sample per country

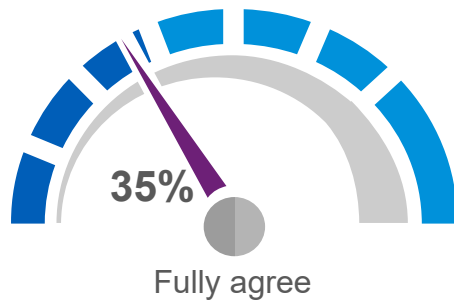


Key findings

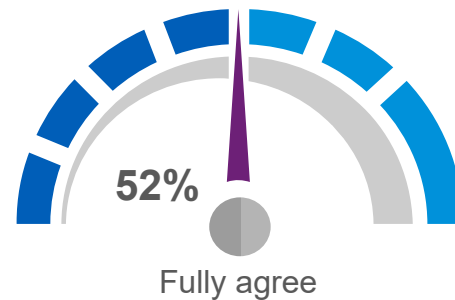
Control and governance framework



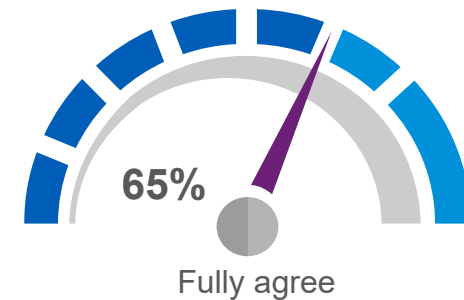
“You are able to **properly monitor, document, report and decide** on all key service providers.”



Management body yearly review of critical/important arrangements



Up-to-date outsourcing register



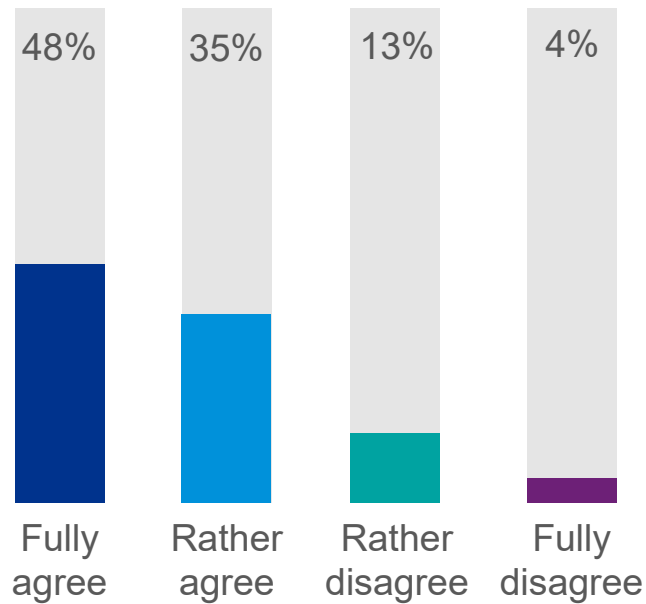
Clear responsibilities on documentation and control of outsourcing arrangements

Key findings

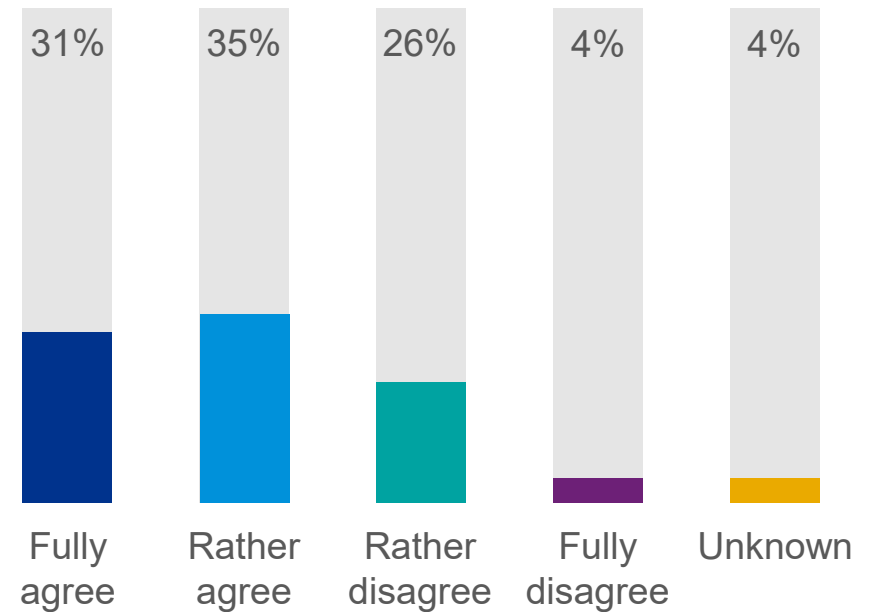
Outsourcing Lifecycle Management



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



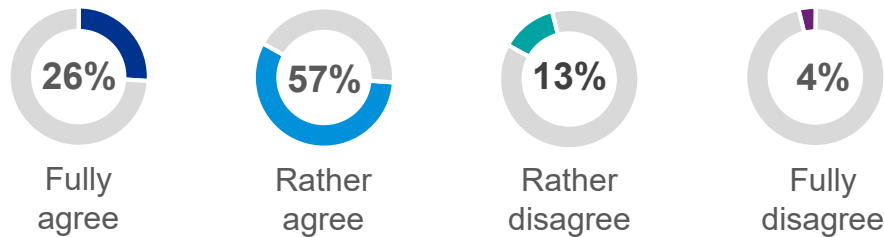
“For the outsourced critical or important functions (covering business processes and/or IT systems) a **documented exit strategy** exists.”



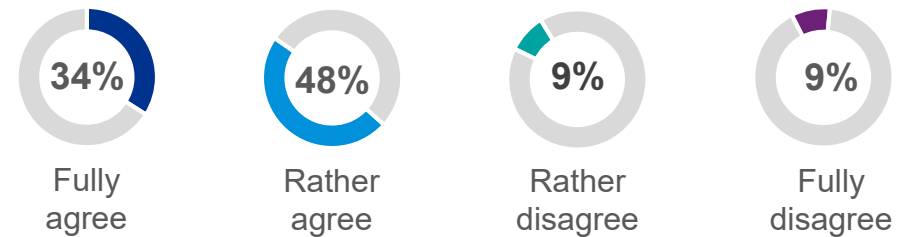
Outsourcing Lifecycle Management



“The outsourcing agreements between my organization and service providers are (if necessary adjusted and) **in accordance with the Outsourcing Guidelines** (including mandatory clauses).”



“The **performance** of the service providers with regard to all outsourcing arrangements is monitored on an ongoing basis.”



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



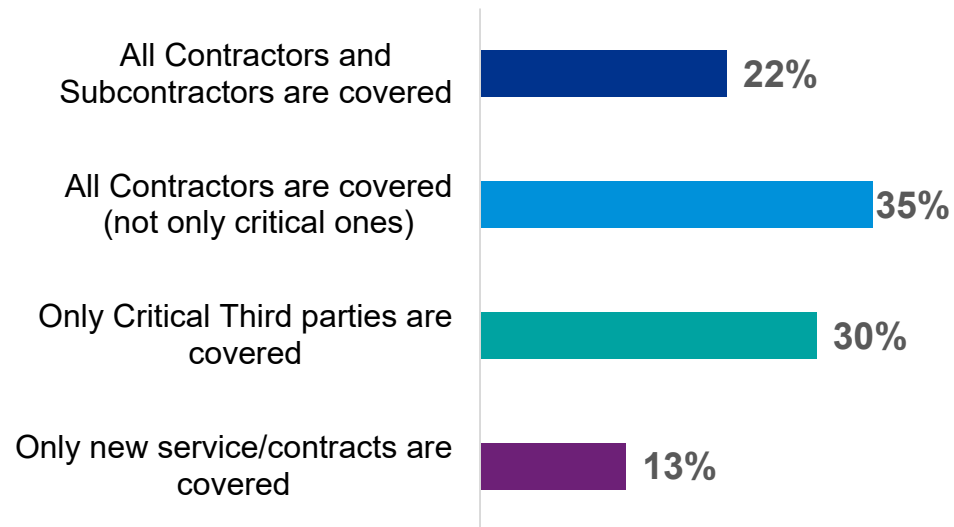
Key findings

Third Party Risk Management



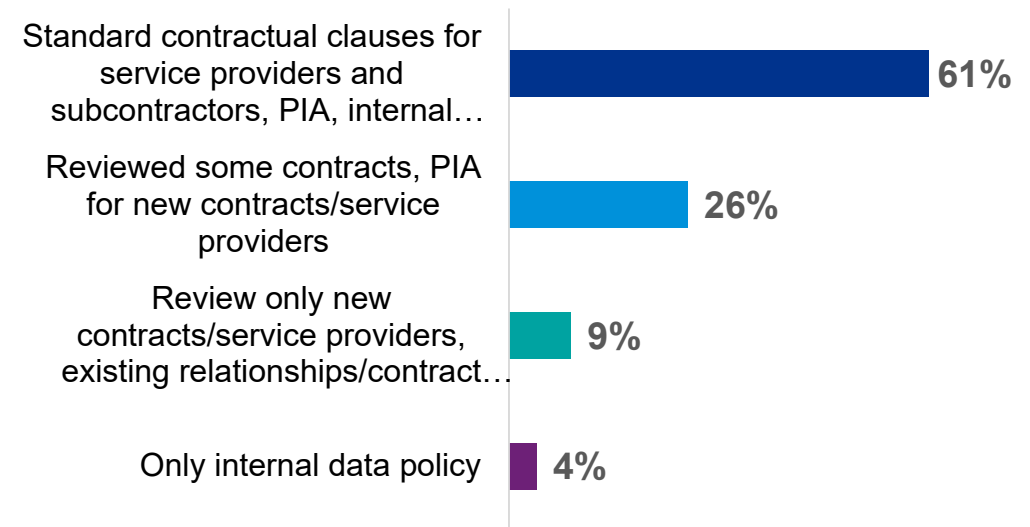
“How would you describe the **current risk coverage** of your contractors/subcontractors?”

None of the respondents chose the following option:
“All Contractors and Subcontractors and Subcontractors of Subcontractors (Fourth or Fifth parties) are covered”



“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.



Challenges with regard to the Guidelines

“Which are the biggest challenges/questions regarding outsourcing compliance you have?”

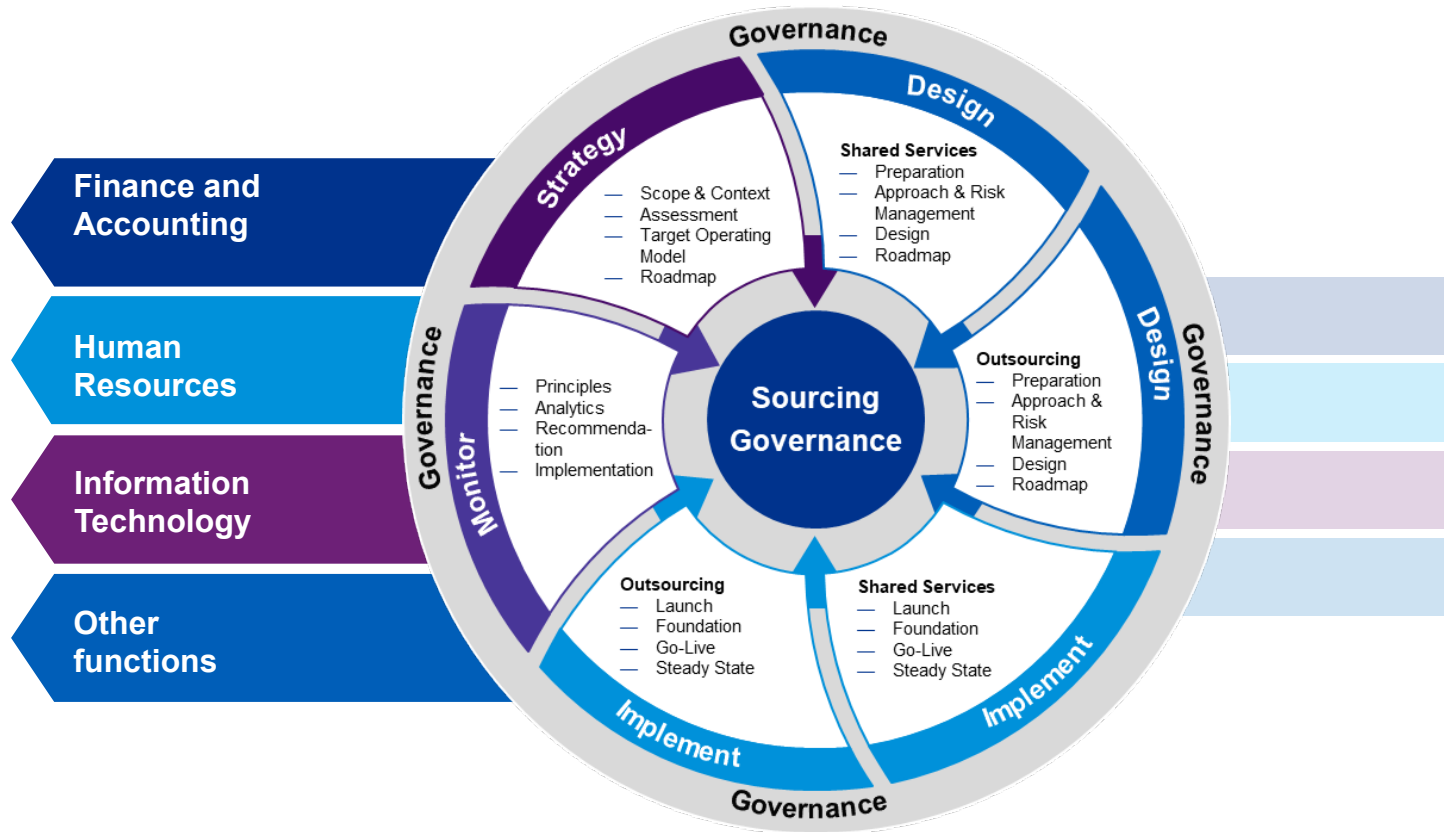
Most challenges and questions are related to...



02

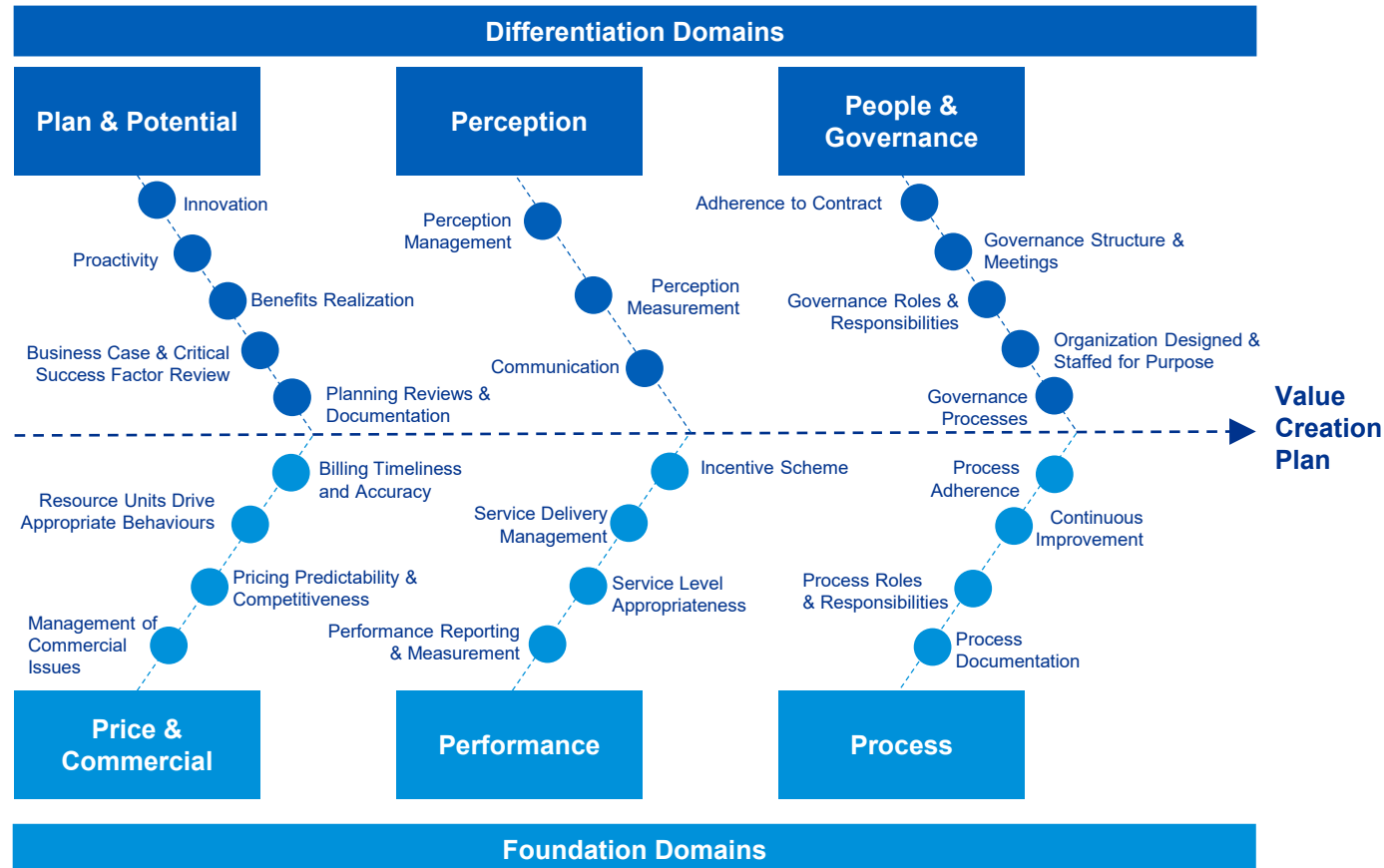
Outsourcing insights & how KPMG can help **Dealing with your outsourcing challenges**

The Outsourcing Lifecycle



We help clients align business strategy, organization and execution to manage the entire IT and business process lifecycle, improving performance and laying the groundwork for genuine business transformation.

From foundations to value



Our 6P view of value enabled by both buyers and suppliers of services in equal measure by assessing 6 domains

The 2021 Digital Sourcing Trend Radar

The 2021 Digital Sourcing Trend Radar includes those trends observed during first-hand field experience working with clients and service providers around the globe. The included trends are structured according to three domains:

- Sourcing process
- Solutions
- Ways of working

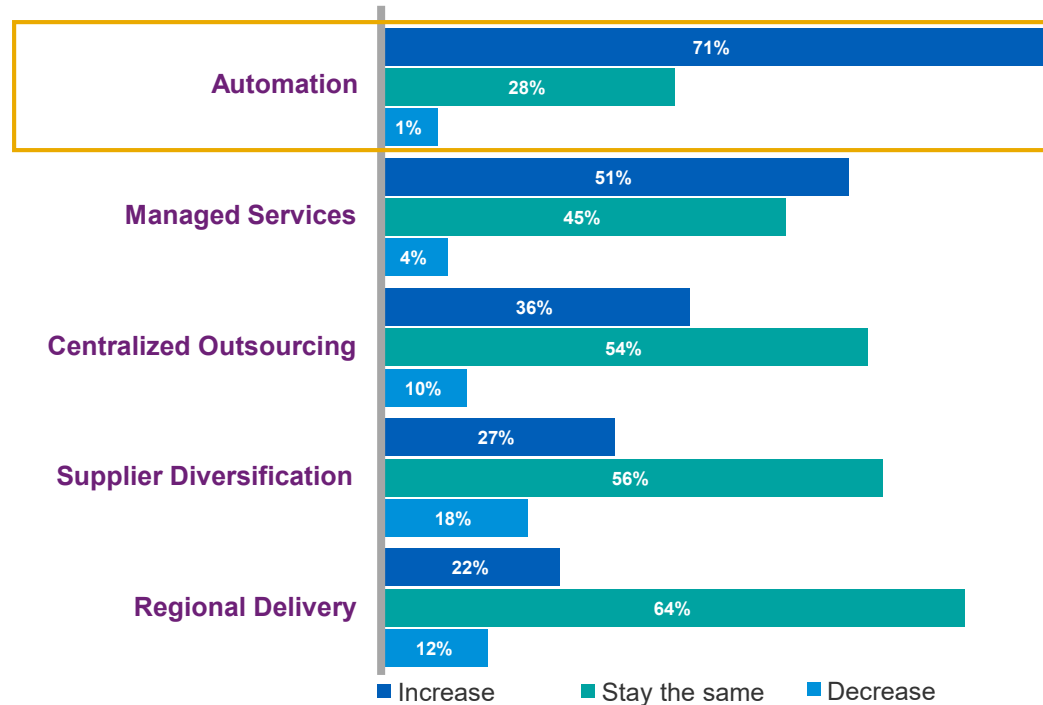
For each trend we also predicted the impact, ranging from major, moderate to minimal.



Domains | Sourcing Process | Solutions | Ways of Working | Potential Impact | Major | Moderate | Minimal

Outsourcing and impact of automation

Changes in service delivery model due to...



Technology leaders apply automation as much as they can wrt what they control in-house. This approach can increase velocity, offer more efficiency, increases reliability and offers more data to analyze (source: KPMG HarveyNash CIO survey 2020)

Automation needs to be taken into account in (out)sourcing strategies as a key new 'sourcing' option

Relationships evolve:
differences between what was agreed, what is delivered and what is expected

In long term IT deals there is often a discrepancy between expectation and delivery



Long term contracts need mechanisms to evolve as the relationship develops

Pitfalls can and should be avoided



Outsourcing do's

Develop and maintain a robust business case

Consider vendor capability/credentials

Align your expectations and priorities with those of the service provider

Manage the vendor relationship (as a partnership)

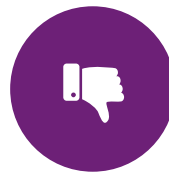
Ensure data security, intellectual property protection

Manage risks, including geopolitical concerns, reputational risk

Include exit options in the contract

Analyze critical mass: what should be bundled

Consider business continuity/ Disaster recovery



Outsourcing don'ts

Start without clear support and approval of the leadership team

Overlook regulatory concerns and compliance

Select service providers on the basis of cost only

Neglect staff retention and turnover

Let the tender process take too long — opportunity cost could be significant

Use only tactical measures such as SLAs to measure the benefits of sourcing

Underestimate transition complexity

Unrealistic expectations

Forget the importance of a cultural fit with your vendor

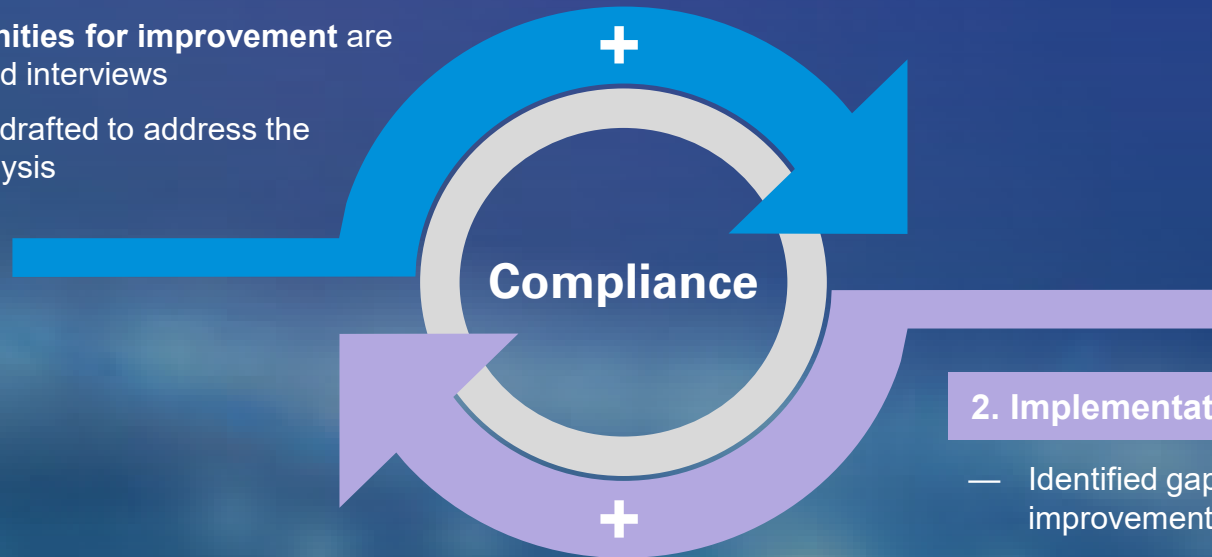
03

Client case

Client case - High level approach

1. Gap Analysis and Improvement Plan

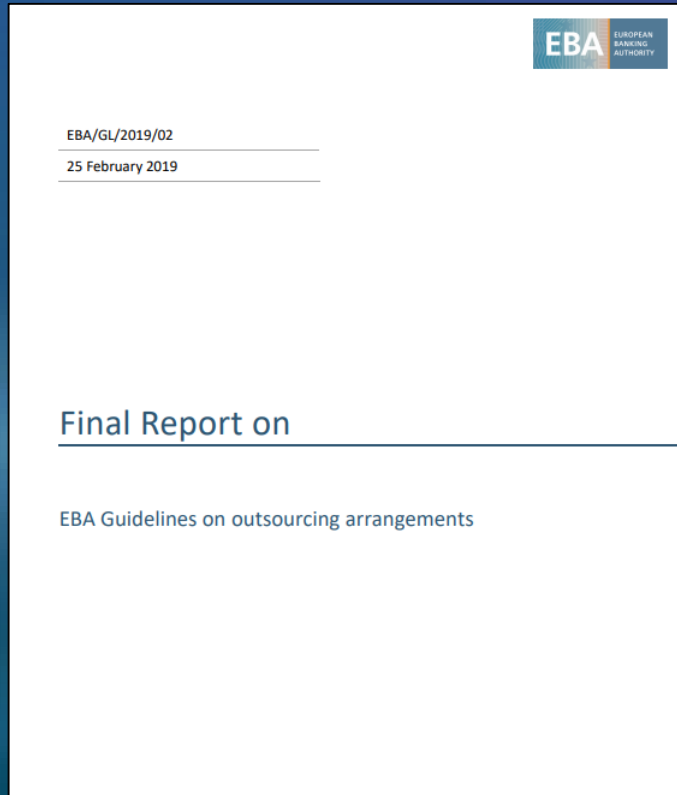
- An **Assessment Tool** is used to perform a **Gap Analysis** on the compliance with the EBA Outsourcing Guidelines
- Major **gaps and opportunities for improvement** are identified in workshops and interviews
- An **Improvement Plan** is drafted to address the outcomes of the Gap Analysis



2. Implementation of the Guidelines

- Identified gaps and opportunities for improvement are **prioritized**
- The Improvement Plan is executed in a **series of sprints**
- A distinction is made between **short-term and long-term activities**

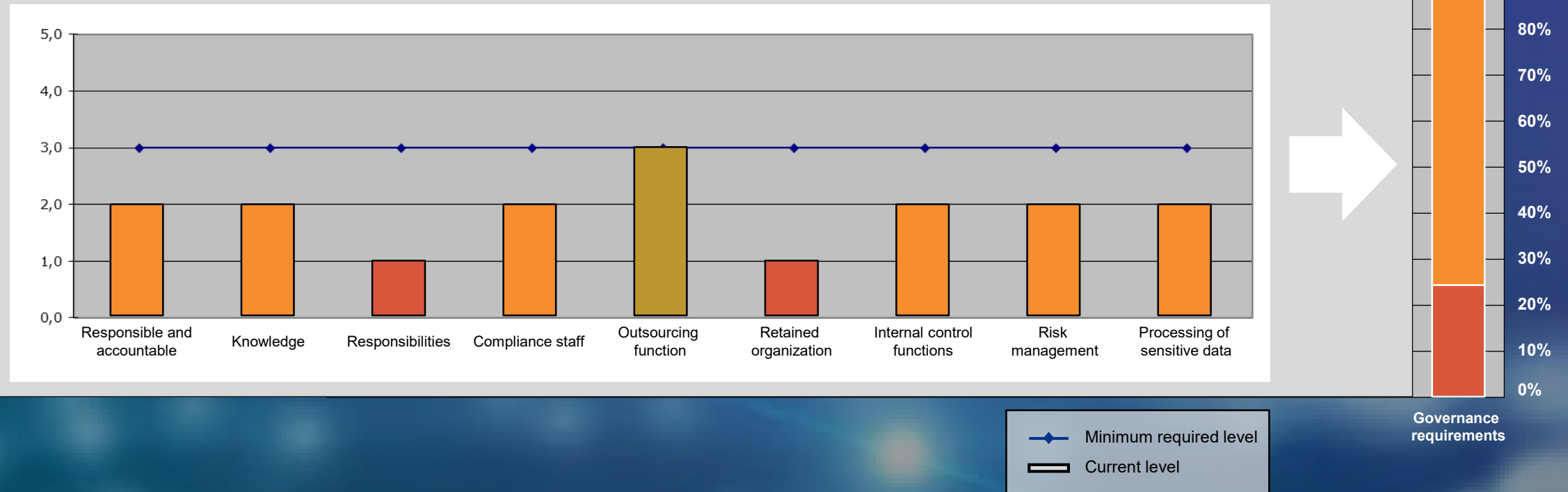
Maturity Assessment tool



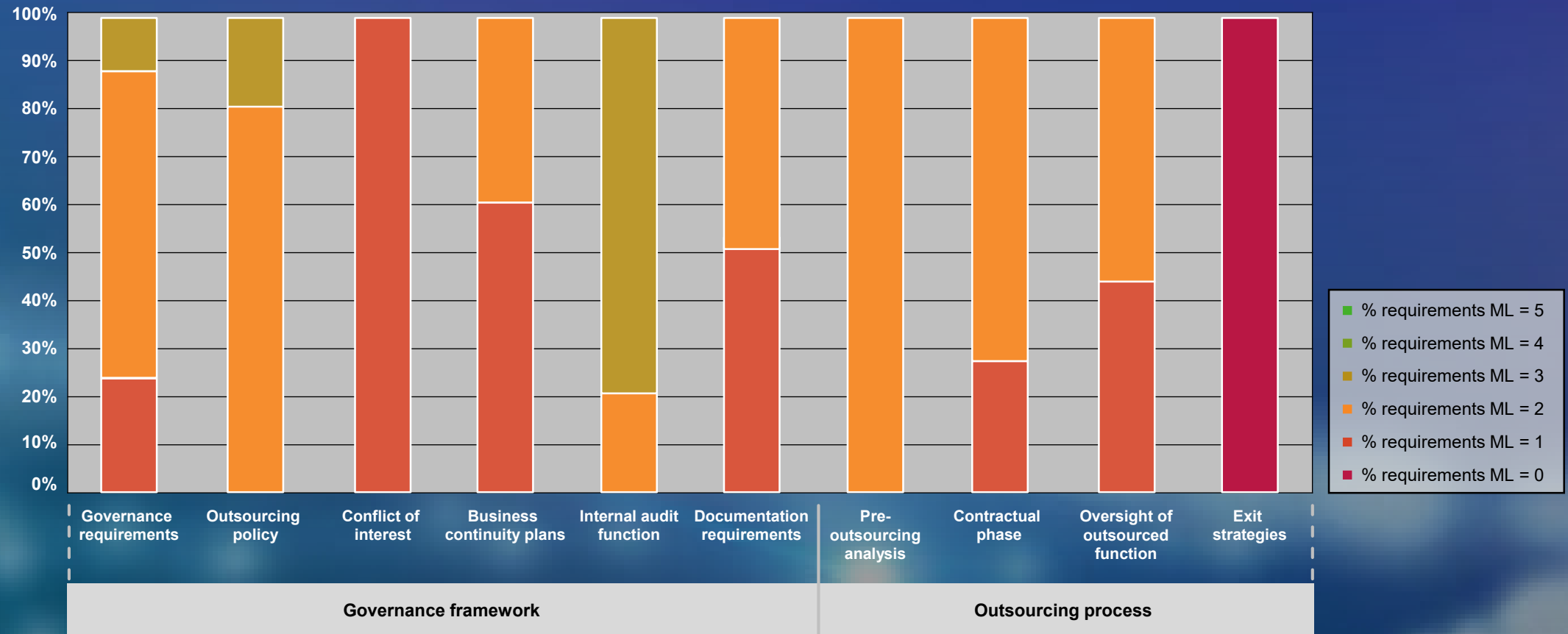
Maturity Assessment Overview		Maturity Assessment Results	
Main Menu	CLICK on the domain name to navigate to the detailed Maturity Assessment-sheet	Assessment Status	Operational maturity level Assessment Current
Domain Governance framework		Open	
Institutions and payment institutions should have an effective governance framework in place to manage all outsourcing arrangements.			
1 Governance Requirements			
1.1	Responsible and accountable	Open	N/A
1.2	Knowledge	Closed	2
1.3	Responsibilities	Draft	3
1.4	Compliance staff	Open	0
1.5	Outsourcing function	Open	1
1.6	Retained organization	Open	2
1.7	Internal control functions	Open	4
1.8	Risk management	Open	5
1.9	Processing of sensitive data	Open	4
2 Outsourcing policy			
2.1	Approved policy	Open	5
2.2	Maintenance of policy	Open	3
2.3	Outsourcing life cycle	Open	4
2.4	Responsibilities	Open	2
2.5	Differentiation	Open	5
2.6	Risk profile	Open	3
3 Conflict of interest			
3.1	Conflict of interests	Open	4
4 Business continuity plans			
4.1	Business continuity plans	Open	3
4.2	Testing	Open	1
4.3	Quality disruption	Open	0
5 Internal audit function			
5.1	Independent review	Open	3
5.2	Audit activities	Open	3
5.3	Quarterly management reports	Open	5
6 Documentation Requirements			
6.1	Outsourcing register	Open	4
6.2	Information completeness - outsourcing arrangements	Open	3
6.3	Information completeness - service providers	Open	5
6.4	Information completeness - critical or important functions	Open	4
6.5	Outsourcing register	Open	2
6.6	Execution of effective supervision	Open	3
6.7	Critical and important functions, including cloud services	Open	2
6.8	Material changes and/or severe events	Open	3
6.9	Outsourcing strategy	Open	0
Main Menu	1. General information	2. Assessment summary	3. Graphical overview
	4. Governance framework	5. Outsourcing process	

Gap Analysis - Maturity score per requirement

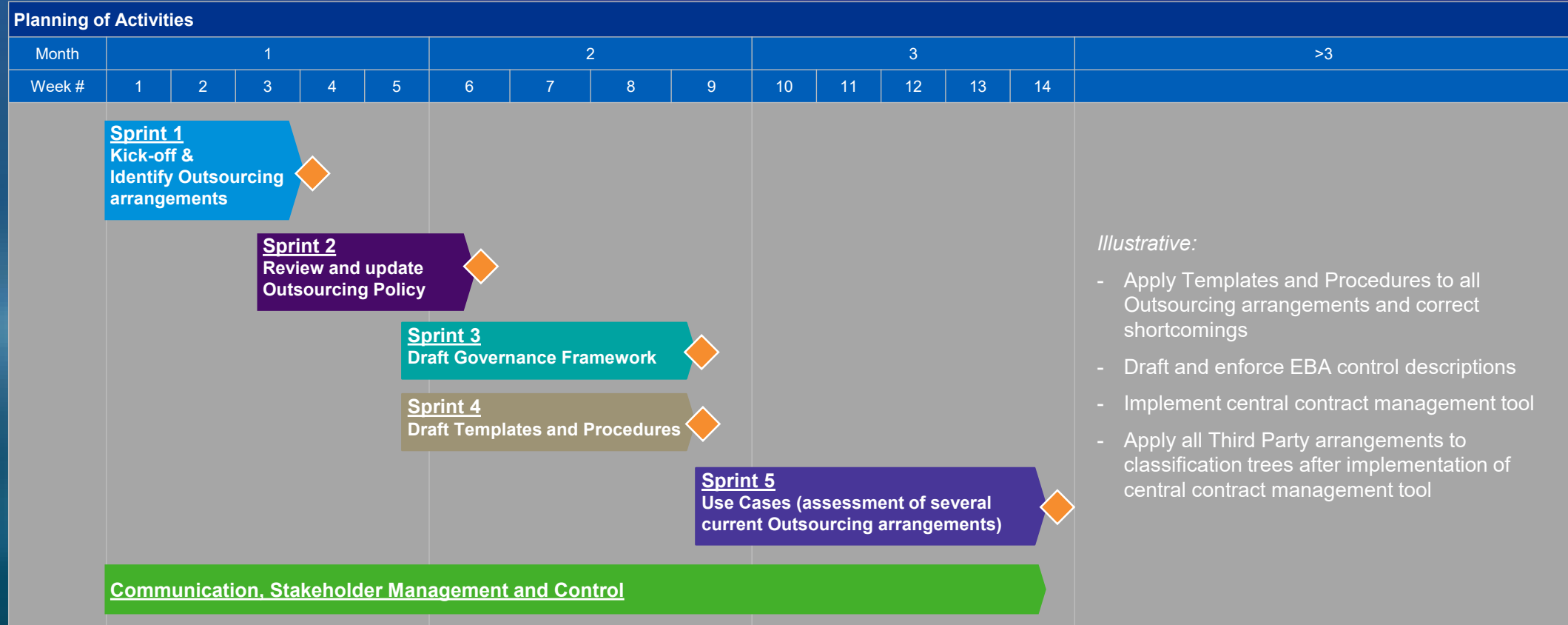
Topic: Governance requirements



Gap Analysis - Maturity score per topic



Improvement Plan



Outsourcing Process: Templates and Procedures

- Procedures for Notifications to the Competent Authority (Supervisor)
- Outsourcing Register
- Documentation maintenance (Classification, Risk Assessment, SLA's, Exit Plan etc.)

- Monitoring Guiding Principles
- Risk Assessment
- Escalation Procedure
- Business Continuity Plan
- Exit Plan
- Exit Strategy

4. Reporting and documentation requirements

3. Monitoring, Evaluation & Optimization

1. Pre-Outsourcing

2. Contracting

- Outsourcing Classification Decision Tree
- Risk Assessment template
- Due Diligence Guidance
- Conflict of Interest Analysis
- Knowledge Retention Analysis
- Business Continuity Plan template
- BIA and PIA templates
- Exit Strategy template

- Standard Contract Schedules
- Minimal Contract Requirements checklist
- Exception Procedure
- Approval Procedure
- Contract Management (incl. tooling)

Use Cases

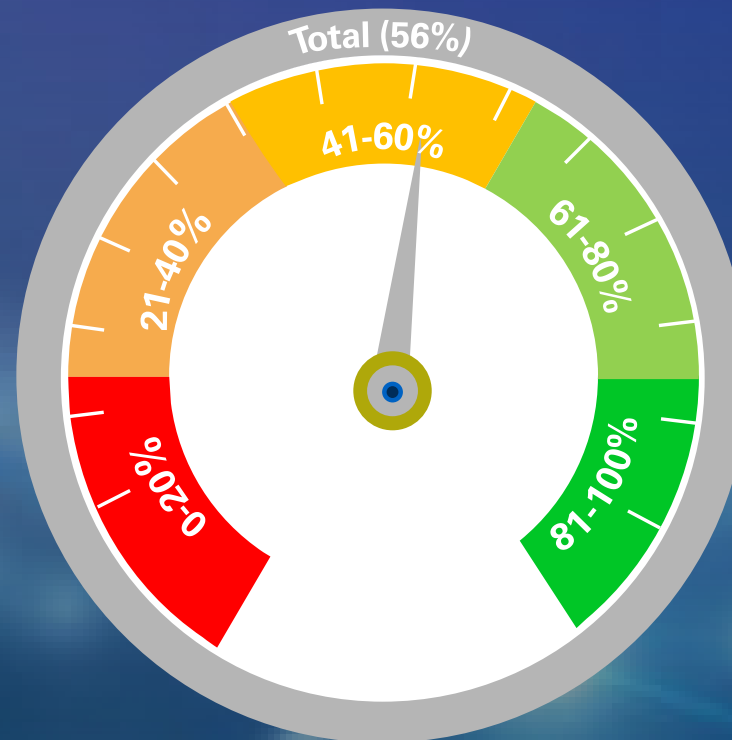
Assessment of existing outsourcing arrangements

1. Pre-Outsourcing 35%

- Risk Assessment has only been performed from technical perspective
- Due Diligence was performed partially, outcomes are poorly documented
- BIV Classification has been executed partially
- No evidence on execution of Conflict of Interest, Knowledge Retention Analysis & Exit Strategy

2. Contracting 40%

- Contract assessment identifies gaps which need to be resolved (e.g. mandatory clauses are not included)
- Various deviations from the standard contract clauses and schedules cannot be justified
- Limited evidence on formal review and approval procedure



3. Monitoring, Evaluation and Optimization 70%

- Monthly service level reports are in place and documented (including PI's and KPI's)
- No evidence on management of exceptions and escalation when thresholds are violated

4. Reporting and documentation requirements 50%

- Outsourcing of critical or important functions have been reported to the competent authority
- Outsourcing register is lacking information and does not include subcontractors
- Documentation with regard to the oversight of the outsourced function is not stored centrally

5. Other 65%

- Responsibilities for the documentation, management and control of the outsourcing arrangement are not clearly assigned

Client case

Lessons learned



Make it a **multi-disciplinary initiative**. Allocate sufficient time to explain all aspects of the guidelines in order to increase **awareness**.



The guidelines are up for **interpretation**, which can lead to many semantic discussions. Facilitate discussions on the intent and goals of the guidelines.



Make templates and procedures **pragmatic and fit-for-purpose**.



Maintain focus. The guidelines touch many topics which can be related to other guidelines and/or organizational shortcomings. You cannot solve all issues at once.



Do not just focus on compliance: strive for **business value** in the process.

Questions & Answers



Questions & Answers

What should be included in termination plans of critical SaaS solutions?

Questions & Answers

How can you combine DevOps and IT Outsourcing?

Questions & Answers

Other questions in the audience?



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