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BANK OF THAILAND

14 May 2003

To Managers

All commercial bank

All finance companies, finance and securities companies and credit
foncier companies

No. ThorPorTor. SorNorSor. (01) Wor. 1191/2546 Re: Practicing
Guidelines for IT outsourcing

Financial institutions have extensively used IT outsourcing services in order to reduce costs, increase operating capacity and develop efficiency of providing services to keep up with the pace of rapidly-changing technology. As a result, the Bank of Thailand hereby determines a practicing guideline for financial institutions to achieve efficient and creditworthy IT outsourcing activities and to protect the interests of customers who use the services. Details are as follows.

Principal

1. In utilizing IT outsourcing services, financial institutions are still liable for providing continuous service to customers and are to maintain the credibility of the service as same as that they may have as if they undertake such information technology operation by themselves.

2. The utilization of IT outsourcing services may create risks to financial institutions in such manner differed from their ordinary operations which financial institutions undertake this kind of operation by themselves such as operational risk which may increase from operation of service provider, strategic risk for planning business operation, reputation risk and legal risk, especially legal risk concerning the confidentiality of customer data etc. Hence, financial institutions should take into account the following two important matters:

(1) In utilizing IT outsourcing services, financial institutions should take into account an effect to their ability to develop and offer new services in the future. Establishing of the efficiency in such matters, in part, requires an understanding in information technology operation from the financial institutions themselves. Therefore, in establishing IT outsourcing policy, financial institutions must also consider strategic risk and continuance of the development of efficiency in long term for their core business.

(2) In utilizing IT outsourcing services particularly from overseas service providers, financial institutions must pay a great attention to legal risk and operational risk which may result from difference in laws and regulations of each country involving in cross-border transactions. Therefore, financial institutions should pay an attention to the selection of Thai service providers as well.

3. Major procedures of IT outsourcing that financial institutions should comply is determining policy for IT outsourcing, risk management, selection of service provider, entering into service agreement and follow-up and monitoring of service providing.

4. Financial institutions may proceed to outsource their IT operation from other service providers according to this practicing guideline without applying for the Bank of Thailand's permission if such outsourcing is not contrary to notifications, circular letters or other conditions determined by the Bank of Thailand.

For financial institutions, which have been permitted by the Bank of Thailand to outsource their IT operations or to process their data overseas subject to specified conditions, such conditions shall be canceled and they shall comply with this guideline instead. However, financial institutions are able to comply with existing agreement or contract that they have entered with their service providers until further change, renewal or execution of new agreement or contract.

In case financial institutions outsource their IT operation from overseas head offices or branches, which are the same juristic person, they must comply with a principle of risk management under this guideline without necessity to make a written contract. However, financial institutions may readily prepare data and information for the Bank of Thailand's inspection in all cases. They shall also have overseas head offices or branches issue a letter of consent allowing the Bank of Thailand to inspect an operation relating to such service. The Bank of Thailand will monitor and supervise as deemed appropriate.

5. For the supervision purpose, financial institutions shall inform details of their IT outsourcing, which consists of types of service and name of service providers to the Risk Inspection and Information Technology Department, Financial Institutions Supervision Group, the Bank of Thailand, every time it uses the outsourcing service or upon change.

Content

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1. Definition

“Information technology” shall mean any work concerning information technology and having effect to the risk of financial institution. At the minimum, it should include computerized data processing, development of operating systems and programs, data collection, maintenance and security of computer resources such as computer and accessories, operational system and program, communication network systems and data, etc.

“Outsourcing” shall mean allowing other service providers to perform functions which are normally done by financial institution itself.

“Other service providers” shall mean any other persons or juristic persons, both local and overseas, who are not financial institutions using information technology service.

2. IT Outsourcing Policy

2.1 Financial institution shall clearly determine its IT outsourcing policy by taking into consideration coherence with business strategies and competitiveness. The policy shall be approved by its board of directors. The board of directors of financial institution may designate its executive board or a committee in charge of the information technology work to give such approval *mutatis mutandis*.

2.2 Financial institution shall have a clear reason for its decision to outsource the IT service from other service providers such as business necessity, benefits and costs. Any selection of service, including cases where service providers are overseas and they sub-contract other parties, shall not violate the laws and regulations of Thailand and those of the service provider’s country.

2.3 Financial institution shall evaluate its IT outsourcing policy at least once a year so that it remains in line with the financial institution’s strategies and goals.

3. Risk management

3.1 Financial institution shall understand and can evaluate levels of risk that may arise from outsourcing an IT operation to other service providers as well as clearly establish a risk management policy. The risk management policy for IT outsourcing shall be in line with the institution’s overall risk management policy and be approved by its board of directors.

3.2 Financial institution must clearly specify in writing guidelines, methods and persons responsible for managing risk that may occur from the IT outsourcing, and shall comply with the guidelines and methods so determined

including constantly evaluate results of work performance to manage and control possible risks.

3.3 Financial institution must formulate an emergency plan to accommodate problems that may arise from IT outsourcing. The emergency plan should clearly specify how to make copies of data ready for use, procedures and methods to solve problem or for damage recovery, responsible person and timeframe to implement the plan. In addition, the plan shall be revised, updated and tested on a constant basis to ensure actual implementation

In case a service provider is overseas, a financial institution must formulate an IT emergency plan and guidelines for continuous service providing in case disaster occurs in a country where service provider is based. In necessary cases; for example, that the service provider's country has a risk arising from terrorism or natural disaster, financial institution may have to arrange a reserve data-processing system locally or in other country that is not that of the service provider.

4. Selection of service provider

Financial institutions should have a clear process and rule of service provider selection. In addition, they should check the readiness and consider suitability of a service provider to ensure that it can provide ongoing services and respond to the financial institutions' needs, by taking into consideration significant factors such as experience and service providing capability, internal management system or ability to perform according to the service provider's contract.

5. Execution of agreement

Financial institution and service provider must prepare a written agreement and keep such agreement at the financial institution in order to ready for the Bank of Thailand's inspection or upon the Bank of Thailand's request.

Such agreement should clearly indicate roles and responsibilities of the parties and conditions of the service providing. The contents of the agreement should be examined by the financial institution's Legal Department and include the following:

- 1) Scopes of work and conditions of service providing such as name and type of service, service hours, place of service and service charge or fee.
- 2) Minimum standard of operation required from service provider both under usual and unusual circumstances.
- 3) Scopes of responsibility of the parties and obligations in case that problems occur during providing service such as mistake or delay.
- 4) Security protection of data, including maintaining confidentiality and privacy of customer's data, which includes; for example, methods

to receive and send data, right to access data, data ownership and method of keeping the data. The service provider should separate database of financial institution's customers from its own database and that of its other customers.

5) Service provider's internal control system, report of operational results and report of service provider's significant changes that may affect its ability to perform its obligation in accordance with the agreement such as change of the service provider's directors or high-ranking executives, material changes of its financial status or offering of service to excessive number of customers to the point that it may affect its servicing capacity, etc.

In case service provider offers the IT services to numerous other customers, financial institution shall consider the service provider to have an adequate operating system to accommodate providing service to every customer simultaneously both in usual and unusual circumstances.

6) In case service provider sub-contracts to other parties, financial institution must clearly specify the service provider's responsibilities regarding providing service to the financial institution notwithstanding that the service provider has sub-contracted the work to others. The sub-contractor must be able to perform its obligation according to service conditions stipulated by the financial institution to the service provider if the service provider provides the service by himself.

Financial institution may stipulate in an agreement requiring a service provider to notify it or to obtain approval from the financial institution prior to sub-contracting or change of sub-contractor.

7) Arrangement of emergency plan of the service provider that is in line with that of the financial institution.

8) Rights of a financial institution to amend an agreement including to change, renew or terminate the agreement so as to be flexible when it comes to service improvement should it be necessary. The cases in point are; for example, an improvement to keep pace with fast-developing technology as well as to prevent it from being an obstacle to financial institution's future operation.

9) Guidelines on how financial institution may take all or part of the work operation back to operate by itself or on how to deliver the work operation to other service providers instead should an agreement be terminated or if service provider is changed so that the financial institution may continue its operation on an ongoing basis despite the change of its IT operator.

10) Right of financial institution, internal auditor, external inspector or the authorities to inspect an operation and internal control of a service provider or a sub-contractor (if any).

11) Right of the authorities to request from a service provider or sub-contractor relevant information or information that may affect service providing

to the financial institution as deemed necessary to risk management of the financial institution.

6. Monitoring, evaluating and auditing of service providing

Financial institution shall monitor, evaluate and audit the service providing of its service provider on a regular basis to ensure that the IT outsourcing activity remains in line with the objectives and goals previously set. The financial institution must consider service provider's efficiency, financial status, compliance with the agreement and arising problems in accordance with the following guidelines.

6.1 Financial institution must put in place a clear monitoring and evaluating system of a service provider's work performance where it shall also evaluate the system on a regular basis.

6.2 Financial institution must have an internal or an external auditor audit its service provider on a regular basis. It must also arrange and make available for the Bank of Thailand a monitoring, evaluating and auditing report of the service provider's performance at the financial institution. If necessary, the financial institution or the Bank of Thailand shall be able to inspect the service provider's operation and internal control.

6.3 Financial institution shall arrange or have a service provider prepare an operating manual and relevant documents as well as constantly update them for the purpose of implementation, monitoring, evaluating and managing financial institution's risks.

6.4 Financial institution may arrange its employees to understand a service provider's operating process in order to monitor and evaluate the performance of its service provider accurately and creditably.

6.5 Financial institution must immediately arrange a report of any arising problems to its executives for solving such problems timely.

6.6 Financial institution must, in any cases, make available of data for the Bank of Thailand's inspection.

Please be informed and observed accordingly.

Yours sincerely,

(M.R. Pridiyathorn Devakula)
Governor

Strategy Development and International Relation Department
Tel 0-2283-6938 0-2283-6939

Note ☐ The Bank of Thailand will arrange a meeting to clarify on _____, at _____.

☒ No meeting for clarification will be arranged.