

Unofficial Translation

This translation is for the convenience of those unfamiliar with the Thai language

Please refer to Thai text for the official version

Notification of the Bank of Thailand

No. FPG 8/ 2557

Re: Regulations on Outsourcing of Financial Institutions

1. Rationale

The Bank of Thailand allows financial institutions to utilize outsourcing services from service providers (Outsourcing) in order to reduce operating cost and increase flexibility and efficiency of the operation, as well as enhancing competitiveness of financial institution, thereby benefiting financial consumers in terms of convenience and speed of the services. The principle is that the core functions related to business decision must be conducted by financial institutions, not the service providers. Non-strategic functions can be outsourced but with prior approval from the Bank of Thailand in accordance with the specified guidelines. Non-material function can be outsourced without prior approval. In outsourcing any function, financial institutions must be responsible to the customers as if the financial institutions conduct the functions themselves and must comply with the supervisory framework in three important aspects. (1) Business continuity and business continuity plan (2) Consumer protection focusing on customer data security as well as handling of customer complaints and (3) Risk management for utilizing service providers focusing on regular assessment and monitoring of risk that may incur from selection and work process of the service providers. As the guidelines on outsourcing had been in effect for some time already and as the Bank of Thailand finds that business and risk management models for outsourcing as well as the trend of offshore outsourcing have increased, the Bank of Thailand thereby revised the guidelines on outsourcing to be flexible in line with changing business model and risk profile as follows: (1) focus on principle-based approach and allow for more flexibility, for example, specify the principle to group work function in order to reduce the type of function that requires prior approval and revocation of service provider permission, (2) give importance to utilization of offshore outsourcing especially the case where service providers are not in a financial group since utilization of overseas service providers has different risk aspects than domestic service providers coupled with legal constraint on consolidated supervision, and (3) increase the role of financial institutions in monitoring and assessing risks incurred from outsourcing by means of summary report on outsourcing and self assessment.

The three key supervisory guidelines as mentioned above, namely, business continuity, consumer protection, and risk management are sound practices that financial institution should follow in order to reduce risk from outsourcing as well protect customers of financial institutions from unfavorable incidents that may incur from outsourcing. The guidelines are more flexible in case of outsourcing between related companies in accordance with the guidelines specified by the Bank of Thailand.

2. Statutory Power

By virtue of the provisions of Article 41, 47, and 71 of the Financial Institutions Business Act B.E. 2551, the Bank of Thailand hereby issues the guidelines on outsourcing of financial institutions as shown in this notification

3. Scope of Application

This notification shall apply to all financial institutions according to the laws on financial institutions business.

4. Revocation of Notification / Circulated letter

The Notification of the Bank of Thailand No. FPG. 8/2553 Re: Regulations on Outsourcing of Financial Institutions dated 9 August B.E. 2553 (2010)

5. Content

5.1 Definition

In this notification

“Outsourcing” means use of other service provider to perform functions of financial institutions which are normally done wholly or partly by financial institutions themselves

“Service provider” means other juristic person who enters into a contract to perform the functions which are normally done by financial institutions themselves, including any person who subcontract from the original service provider or from any subcontractor, and ordinary persons that provide the services in the work function permitted by the Bank of Thailand

“Company in the same financial group” means company in a financial group in accordance with the notifications of the Bank of Thailand on consolidated supervision

“Hybrid bank” means locally incorporated commercial bank whose direct or indirect equity holding by any foreign entity or group of foreign entities exceed half of the total shares sold of that commercial bank

“Foreign bank's subsidiary” means commercial bank whose direct or indirect equity holding by any foreign commercial bank is not less than 90 percent of total shares sold of that commercial bank

“Foreign bank's branch” means branch of foreign commercial bank licensed to undertake commercial banking business in Thailand

“Related company” means parent company, subsidiary company, and associated company of hybrid bank or foreign bank's subsidiary or branch

5.2 Guidelines on grouping work functions

Financial institutions shall group work functions to be outsourced in accordance with the guidelines by the Bank of Thailand as follows:

5.2.1 Material function comprises 2 groups:

(1) Strategic function for example function with any of the following characteristics:

(1.1) Function related to decision or operation that could affect financial position and risk profile of financial institutions

(1.2) Function related to in-depth analysis, audit or review before deciding to undertake a transaction

(1.3) Function related to monitoring, auditing, and reviewing after a transaction is approved or undertaken, which could affect financial position and risk profile of financial institutions given that the transaction is not undertaken appropriately

(1.4) Function that service providers do not have the expertise and/or the authorities' guidelines require that financial institutions undertake the function themselves

(2) Non-strategic function for example function with any of the following characteristics:

(2.1) Collection or preliminary analysis of data for decision making

(2.2) Function with some risk as it is associated with customer data, financial institutions' data and assets, as well as compliance with the authorities' guidelines.

(2.3) Function with concern on risk if outsourced to overseas service providers

5.2.2 Non-material function for example function with any of the following characteristics:

- (1) Support function that is not data preparation for decision making
- (2) Function that service providers are more effective or have more expertise than financial institutions
- (3) Function with manageable level of risk since the function or service providers are subject to the authorities' guidelines or supervision

Sample work function for each group is in Attachment 1.

In case that financial institutions would like to outsource more than one type of functions as specified above, financial institutions must comply to the more stringent supervisory principle applicable for the functions to outsource.

5.2.3 Outsourced function does not include the following work

(1) Non-banking business, for example, facilitating function and operations and low-risk function as specified in Attachment 2

(2) Function that financial institutions do not have the authority, for foreign banks' branch. In case of over-the-limit transaction or special product or transaction which required prior approval from the head office or regional office, financial institutions must

(2.1) Involve in commenting or be responsible for such transaction or product

(2.2) Have a contact person in Thailand to prepare data or document, and provide preliminary information about such transaction or product to the Bank of Thailand

5.3 Regulations on outsourcing

The bank of Thailand specifies the guidelines on outsourcing by type of function as follows:

5.3.1 Material function

(1) Strategic function

The Bank of Thailand does not allow financial institutions to outsource strategic function except the case where financial institutions have a business model that centralize all functions at the head office, a branch or related company in order to increase operational efficiency or for overall risk management. In such case, financial institutions must receive a permission from the Bank of Thailand on a case by case basis, and the Bank of

Thailand may specify conditions for financial institutions to comply with in addition to the guidelines in this Notification.

(2) Non-strategic function

(2.1) In case of domestic service providers

The Bank of Thailand gives general permission for financial institutions to outsource non-strategic function to service providers in Thailand.

(2.2) In case of overseas service providers

Since utilization of overseas service providers have different risk aspects from domestic service providers as described in Attachment 5 (risks to utilizing overseas service providers), coupled with legal constraint in consolidated supervision, where the Bank of Thailand does not have the authority to supervise companies that are related to financial institutions that are subsidiary or branch of foreign banks. Thus, conditions for such financial institutions are different from Thai financial institutions¹ as follows

(2.2.1) Thai financial institutions excluding hybrid bank

Prior approval from the Bank of Thailand is required for outsourcing to overseas service providers only the case where overseas service providers are not company in the same group

(2.2.2) Hybrid bank or foreign banks' subsidiary or branch

Prior approval from the Bank of Thailand is required for outsourcing to overseas service providers both the case where overseas service providers are and are not company in the same group

¹ Thai financial institutions means (1) commercial banks registered in Thailand (2) finance companies and (3) credit foncier companies.

Summary Table: Guidelines on outsourcing non-strategic function according to 5.3.1 (2)

Type of financial institutions	Domestic service providers		Overseas service providers	
	Company in the group	Company outside the group	Company in the group	Company outside the group
Thai financial institutions, excluding hybrid bank	✓	✓	✓	*
Hybrid bank / Subsidiary	✓	✓	*	*
Foreign banks' branch	-	✓	-	*

Note: ☒ general permission * prior approval required

5.3.2 Non-material function

The Bank of Thailand gives general permission for financial institutions to outsource non-material function to service providers, provided that financial institutions comply with the guidelines as specified in this Notification.

5.4 Applying for permission to outsource

5.4.1 Submission for permission

In case that financial institutions need to have prior approval from the Bank of Thailand before outsourcing, financial institutions must specify the function group of the work to outsource, then submit the letter of intention together with data and documents as listed in Attachment 4 to the Financial Institution Applications Department, Supervision Group, Bank of Thailand. For clear and non complex applications, the Bank of Thailand will notify the written permission result within 30 days from the day that the Bank of Thailand received all the documents, except the case where the Bank of Thailand requests additional information or detail clarification from financial institutions. The Bank of Thailand reserves the right to specify additional conditions on a case by case basis.

5.4.2 Change of service provider and subcontracting

For function that requires prior approval from the Bank of Thailand before outsourcing, financial institutions do not need to apply for new approval in case where there are change in or more service providers or the service providers subcontracts their services partly or fully, except the case where there is material change in work function or there is change in type of functions that are subjected to prior approval according to 5.3.

5.4.3 Other cases

For outsourcing cases other than those specified in this Notification, financial institutions shall apply for permission to the Financial Institution Applications Department, Supervision Group, Bank of Thailand on a case by case basis.

5.5 Supervisory guidelines on outsourcing

In outsourcing to service providers, financial institutions must be responsible to the customers as if the financial institutions conduct the functions themselves and must comply with the 3 important principles, namely, (1) to ensure continuity of operation and provision of services to the customers (business continuity) especially preparing a business continuity plan in case of an abnormal event (2) to have in place a system to take care of customers especially customer data security and handling of customer complaints (Consumer protection) and (3) to have in place risk management for utilizing service providers. In this regard, financial institutions must comply with the following supervisory guidelines on outsourcing.

5.5.1 Roles, duties, and responsibilities of the board of directors of financial institutions

5.5.2 Selection of service providers

5.5.3 Consumer protection

5.5.4 Business continuity management

5.5.5 Contracts and agreements

5.5.6 Monitoring, assessing, auditing, and controlling risks from utilizing service providers

5.5.7 Utilization of service providers that are companies in the same group and are related companies

Details are in Attachment 3

In case of necessity with good reasons where financial institutions fail to comply with any of the supervisory guidelines, financial institutions may apply for permission to the Financial Institution Applications Department, Supervision Group, Bank of Thailand, explaining details of such necessity and reasons.

5.6 Examination by the Bank of Thailand, external auditors, or other supervisory authorities

Financial institutions must facilitate examination by the Bank of Thailand, external auditors, or other supervisory authorities to be able to examine the service providers or subcontractors (if any), as well as provide access to related information about the service providers, where such information should be accurate and updated.

5.7 Reporting to the Bank of Thailand

Since the Bank of Thailand has relaxed the framework for outsourcing permission in order to reduce obstacle and increase effectiveness in financial institutions' operation, the Bank of Thailand thereby increase the role of financial institutions to monitor the services of service providers, as well as assessing the monitoring process and risk management from outsourcing as follows:

5.7.1 Summary report on outsourcing

Financial institutions must submit the report on outsourcing to service providers, ie. name of outsourced function including details on how to group the function type according to the principle specified by the Bank of Thailand, name of service provider, type of service provider (relation with service provider as company in the group or outside the group), location of service provider, starting and ending date of contract, service fee between financial institutions and service providers , and additional information (if any) ²in the summary report on outsourcing as specified in Attachment 6.

Financial institutions must prepare the aforementioned summary report annually, using information from the service providers as of 1 January of each year, and submit the report to the Financial Institution Applications Department, Supervision Group, Bank of Thailand by 31 March of each year or when requested by the Bank of Thailand. Between the reporting period, financial institutions should regularly monitor information on

² For example, explanation of necessity and reasons that financial institutions are unable to comply with the supervisory guidelines specified by the Bank of Thailand for the function that has been granted a waiver from the Bank of Thailand already.

outsourcing to the service providers in order to acknowledge the risks from outsourcing and appropriately manage the risks accordingly.

For the first report on outsourcing, financial institutions shall use the data of the service providers as of the 1st of the month following the effective date of the Notification and submit the report to the Financial Institution Applications Department, Supervision Group, Bank of Thailand by 30 April 2015.

5.7.2 Self-assessment

Financial institutions shall assess the operations and effectiveness of management of risks associated with the overall outsourcing activities, following the supervisory guidelines on outsourcing as specified in Attachment 3.

Financial institutions must conduct the aforementioned self assessment annually or when there is material change on outsourcing, using financial institutions' own format. Self assessment report shall be kept at the financial institutions and be ready to submit to the Bank of Thailand upon request.

5.8 Order or revocation power

Both for the case that financial institutions need or do not need prior approval from the Bank of Thailand before outsourcing, the Bank of Thailand may specify any additional conditions as deemed appropriate. And if the Bank of Thailand finds that financial institutions fail to comply with the guidelines or conditions as specified by the Bank of Thailand, or fail to act according to the reported information, or act in such a way that affects safety or happiness of the public, or any other cases deemed appropriate by the Bank of Thailand, the Bank of Thailand may revoke the permission in the general case or case-by-case basis, as well as order and/or specify any other additional conditions on a case-by-case basis, as deemed necessary.

5.9 Transitional clause

Financial institutions that have already received approval or permission from the Bank of Thailand to outsource on a case-by-case basis prior to the effective date of this Notification do not need to apply for new approval, and shall comply with the guidelines approved on the case-by-case basis, so long as they do not conflict with this Notification

6. Effective date

The Notification shall come into force on the day following publication date in the Royal Gazette onwards.

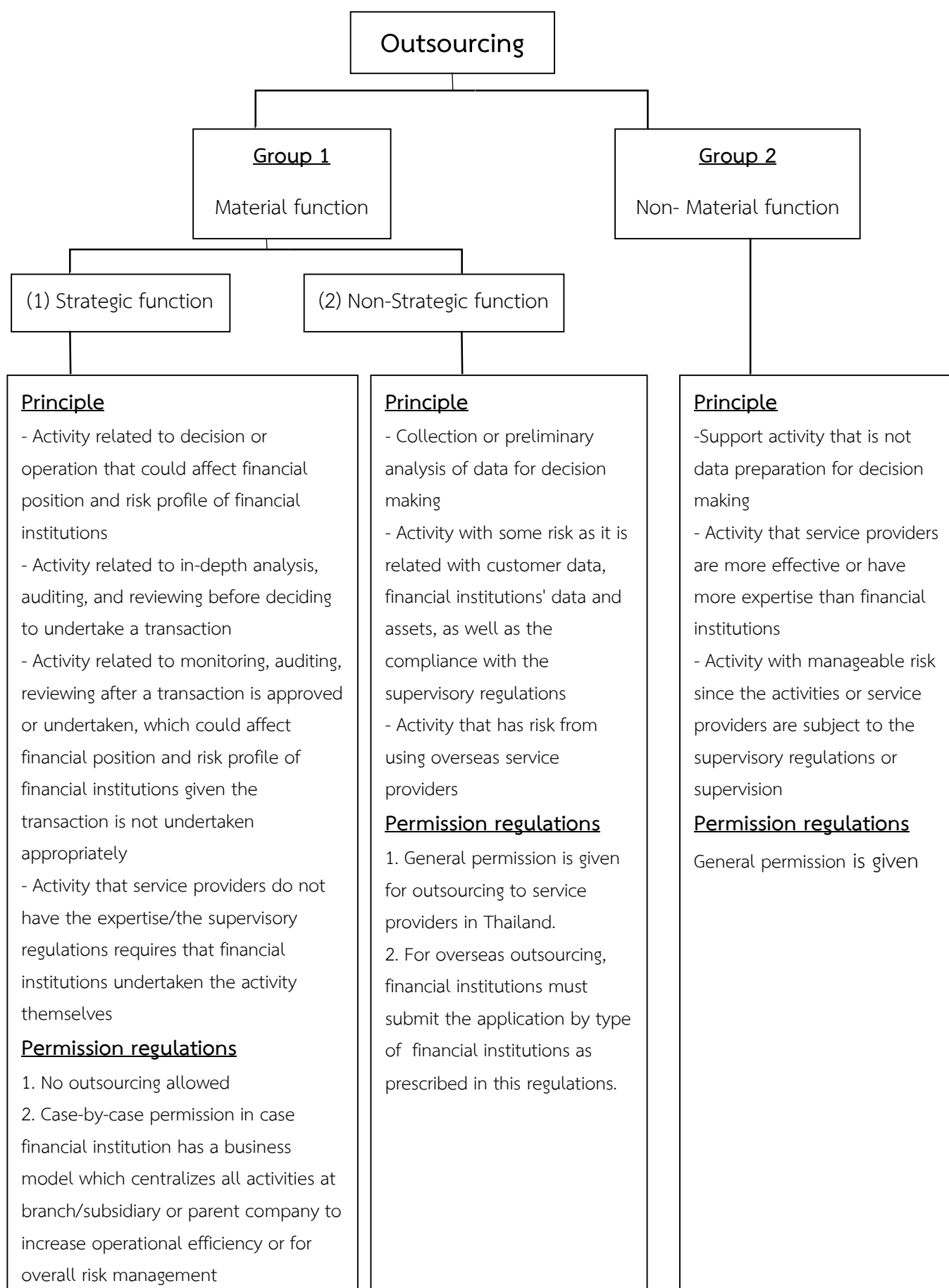
Announced on 25 December 2014

(Mr. Prasarn Trairatvorakul)

Governor

Bank of Thailand

Flow Chart: Summary Regulations on Grouping Work Functions and Permission Regulations



Summary Table: Regulations on Grouping Work Function, Permission Guidelines, and Sample Work in each Activity

Work activity	Strategic function	Non-strategic function	Non-material function
Principle	<ul style="list-style-type: none"> - Activity related to decision or operation that could affect financial position and risk profile of financial institutions - Activity related to in-depth analysis audit or final review before deciding to undertake a transaction - Activity related to monitoring, auditing, and reviewing after a transaction is approved or undertaken, which could affect financial position and risk profile of financial institutions given that the transaction is not undertaken appropriately - activity that service providers do not have the expertise and/or the supervisory regulations require that financial institutions undertake the activity themselves 	<ul style="list-style-type: none"> - Collection or preliminary analysis of data for decision making - Activity with some risk as it is related with customer data, financial institutions' data and assets, as well as compliance with the supervisory regulations - Activity that has risk from using overseas service provider 	<ul style="list-style-type: none"> - Support activity that is not data preparation for decision making - Activity that service providers are more effective or have more expertise than financial institutions - Activity with manageable risk since the activity or service providers are subject to the supervisory regulations or supervision

Work activity		Strategic function	Non-strategic function	Non-material function
Permission Guidelines		<ol style="list-style-type: none"> 1. No outsourcing allowed 2. Case-by-case permission in case FI has a business model which centralizes all activities at branch/subsidiary or parent company to increase operational efficiency or for overall risk management 	<ol style="list-style-type: none"> 1. General permission is given for outsourcing to service providers in Thailand 2. For using overseas service provider, FIs must apply for a permission by type of financial institution as specified guidelines 	General permission is given
Credit Activity	Loan underwriting / managing normal loan	<ul style="list-style-type: none"> - Loan analysis ^{1/} - Review appraisal of collateral - Loan underwriting ^{1/} - Review and enter into an agreement - Audit/review of credit line, disbursement, and monitoring use of credit line - Loan review / audit - Audit customer data base 	<ul style="list-style-type: none"> - Loan analysis (preliminary) ^{2/} - Loan review - Collateral Appraisal ^{5/} and NPA appraisal - Collateral storage - Customer data input 	<ul style="list-style-type: none"> - Customer campaign and financial product introduction ^{4/} - Prepare loan document - Legal services related to loan and collateral e.g. pledge, mortgage, contingent liabilities or collateral, and redemption of pledge, mortgage, contingent liabilities, and collateral as well as litigation cases ^{5/}
	Debt management	<ul style="list-style-type: none"> - Decision making on debt management ^{1/} 		<ul style="list-style-type: none"> - Debt collection - Sale of NPA - Management of NPL ^{6/}
Account opening,	Deposit account	<ul style="list-style-type: none"> - KYC/CDD ^{3/} - Account opening approval ^{1/} 	<ul style="list-style-type: none"> - KYC/CDD (Preliminary) ^{3/} 	<ul style="list-style-type: none"> - Customer campaign and deposit product introduction ^{4/}

Work activity		Strategic function	Non-strategic function	Non-material function
deposit, withdrawal , or Transfer		<ul style="list-style-type: none"> - Audit or review input of customer data into the system - Record of transaction in a passbook after approval 	<ul style="list-style-type: none"> - Input customer data into the system, as well as input customer's personal information into a card - Audit registration of customer's passbook, ATM card - Storage of opening account documents whose maturity does not exceed that specified by financial institutions 	
	Deposit, withdrawal, transfer	<ul style="list-style-type: none"> - Audit and review accuracy of information before undertaking a transaction - Approval of deposit, withdrawal, or transfer of money ^{1/} - Daily reconciliation of cash balance, prepare daily deposit report and prepare a report for the Anti Money Laundering Office (AMLO) - Monitoring and control non-active account and audit unusual transactions 		<ul style="list-style-type: none"> - Supporting activity for check collection

Sample of Non-outsourcing activity

- 1. Non-banking business**, for example, facilitating and administrative activities with low risk as follow:
 - (1) Distribution of documents
 - (2) Management of office building
 - (3) Security
 - (4) Typing document
 - (5) Maintenance and repair
 - (6) Procurement
 - (7) Meeting arrangement
 - (8) Hiring temporary staff
 - (9) Employee benefits
 - (10) Cleaning
- 2. Activity that involves temporary interactions with retail customers in product introduction such as**
 - (1) Representative for money expo arrangement and initial introduction
 - (2) Distribution of brochure, prospectus, introductory document, and application for credit card, debit card, internet banking and mobile banking service
- 3. Technical consulting or function required by law that financial institutions must outsource such as**
 - (1) Auditing from outside examiner or external auditor
 - (2) Consulting on information technology, legal, tax, and risk
- 4. Function that financial institutions have an involvement/be a system member of financial infrastructure/payment mechanism (probably with guidelines/rules/regulations to comply with) such as**
 - (1) Clearing and settlement between clearing house and member
 - (2) Correspondent banking
- 5. Function that financial institutions cannot conduct by themselves and so other business entities such as**
 - (1) Electricity, water, internet, and other public utilities services
 - (2) Provision of financial data, market data, business data such as Credit Bureau, BOL, Bloomberg, Moody's, Standard & Poors and Fitch Ratings

Supervisory Guidelines on Outsourcing

1. Roles, duties, and responsibilities of the board of directors of financial institutions

The board of directors of financial institutions¹ is responsible to formulate outsourcing policy which covers factors of consideration for outsourcing and must ensure that relevant parties accurately comply with both the domestic and overseas regulatory guidelines.

The outsourcing policy must cover the following key issues at the minimum:

- 1) Scope and nature of the service to be outsourced
- 2) Service provider selection process, minimum qualifications, and hiring process
- 3) Risk assessment and risk management system
- 4) Relevant internal control systems
- 5) The effective financial institutions and customer information security system
- 6) Business continuity plan of financial institutions in case that the outsourced services are disrupted and unable to provide continuous services
- 7) The migration plan process and change management, including the case of termination of the service provider
- 8) Scope of responsibility of the unit responsible for making outsourcing decision
- 9) Policy to support potential impact such as reduction or dismissal of staff or resistance from affected staff
- 10) Regular review of effectiveness and appropriateness of the policy

¹ In case of foreign banks, this may means senior directors or delegated committee

2. Selection of service provider

Financial institutions must have appropriate service provider selection criteria prior to entering into a new contract or renewed contract, covering the following key issues.

- (1) Technical ability, expertise, and operating experiences,
- (2) Financial strength
- (3) Business reputation, track records of complaints or litigation cases
- (4) Organizational culture and service policy that is appropriate for financial institutions
- (5) Ability to respond to new developments
- (6) Concentration risk
- (7) Clear regulations on consideration of outsourcing to service providers related to the board and senior management

3. Treatment and responsibility to the customers

Financial institutions must always be aware that outsourcing is just delegating services to the service providers. Financial institutions continue to be responsible to customers as if the financial institutions provide the services themselves. Therefore, financial institutions must ensure that the customers are treated properly, at the minimum on the following issues:

- (1) Must ensure that the service providers arrange to have a good system to maintain security and confidentiality of customer information and the financial institution information. For example, separating data of financial institutions' customer from that of the service providers or the service provider's other customers; specifying strict data access control for the service providers' staff, as well reviewing this control process appropriately; and ensuring that the service providers have strict oversight of their staff with regards to maintaining confidentiality of customer information and financial institution information.
- (2) Must arrange to have an adequate system to handle customer complaints and problem solving by recording and monitoring customer complaints including the problem of customer information leakage, where financial institutions must specify

appropriate guidelines to solve such problem. The information should be reported to senior management periodically

(3) Must ensure that the service quality for customer does not deteriorate or the cost burden that normally incurs to financial institutions is put on customer. Utilizing outsourced services must not obstruct compliance to the laws, rules, and regulations of the authorities.

(4) Must disclose information that may be affected the customers in advance by delegating the service providers to act on behalf of financial institutions, for example, fee or service rate

(5) In case of contract termination or cancellation from whatever reason, financial institutions must ensure that customer's information is destroyed or is entirely removed from the service providers.

(6) Must ensure that matters related to customer information and financial institutions' information are in line with the laws on financial institutions business and other related laws

(7) Consider clear and appropriate penalty for the service providers who do not comply with the specified requirements on treatment and responsibility to the customers as specified in (1)-(6)

4. Business continuity management of service providers

(1) Financial institutions must specify the significant level of the outsourced activity by assessing the risks and impacts that may incur if the services are disrupted

(2) Financial institutions must require that the service providers have a business continuity plan especially for the case that significant activity or the activity with wide impact, as well as allocate adequate resources for such operation, applying the guidelines by the Bank of Thailand on business continuity management (BCM) and business continuity plan (BCP) of financial institutions to the extent that is in consistent with the financial institutions' own business continuity.

Financial institutions must conduct a regular test on the business continuity plan with the key service providers, and must record the test results in writing to be reviewed by the Bank of Thailand.

5. Contract and agreement

Financial institutions must enter into a written contract and agreement with the service providers, taking into account, at the minimum, the following key issues:

(1) Detail of the service type, scope of responsibility, risk management, internal control process, security system for safeguarding information and assets of financial institutions

(2) Service level agreement to specify minimum standard of operation that the service providers must perform both under normal and abnormal situations

(3) Business continuity plan of the service providers to support the case where outsourced services are disrupted or unable to provide continuous services

(4) Process to monitor, audit, and evaluate performance of the service providers

(5) Service fee between counter parties must be reasonably set based on cost or market rate, without giving preferential treatment to any person or juristic person both in and outside the financial group

(6) Term of contract, stipulation and contract termination conditions, including the right of financial institutions to revise or extend the contract in order to facilitate any necessary change and not to obstruct operations of the financial institutions in the future

(7) Scope of responsibility of the counter parties in case that a problem incurs such as service delay and mistake, as well as problem solving guidelines or reimbursement of loss

(8) Information security, maintaining confidential information and confidentiality of customer information, financial institutions' information, and access right and information ownership, as well as data transmission, data maintenance, clear penalty in case that customer's information, and financial institutions' information is disclosed. In this regard, the service providers should separate the data base of financial institutions' customers from that of the service providers or the service providers' other customers as well.

(9) Conditions for delegating or subcontracting to other service providers, either in part or all of the services outsourced from financial institutions. The

subcontractors must comply with all the guidelines and conditions as specified in this Notification and as agreed with the financial institutions as well.

(10) Other conditions as deemed necessary e.g. service location, insurance, and use of the overseas service providers BOT Notification No 8-2557 (04 September 2017)-check

(11) Prohibiting service providers to provide the similar service to other financial institutions is not allowed

(12) Compliance with the supervisory regulations

(13) Assigning the right for the Bank of Thailand, financial institutions, external auditors, or other government agencies to inspect operations, internal control process, as well as request relevant information from the service providers or subcontractors (if any). If an inspection needs prior approval from the regulatory agency of the outsource service providers, financial institutions and/or the service providers must carry out all necessary actions to allow for the inspection.

6. Monitoring, evaluating, auditing, and managing risks from using outsourcing service provider

Financial institutions must have a clear and written policy guidance on management of risks associated with outsourcing, in line commensurate with the significance of the outsourcing activities that are outsourced and the overall risk management policy, as well as communicate with relevant parties so that they understand and fully comply with the guidance (sample of risks from outsourcing is in Attachment 5). The guidance should comprise the following key issues at the minimum.

(1) Put in place a clear system to supervise, monitor, audit, and evaluate the service providers on a regular basis in order to have the same standard of internal control as if financial institutions provide the services themselves, as well as ensure that both financial institutions and the service providers strictly comply with relevant laws, accounting standards, and regulations.

(2) Arrange or have the service providers prepare an operating manual and relevant documents, as well as regularly updating them for the purpose of monitoring, evaluating, and risk management of financial institutions.

(3) Arrange a process to regularly educate staff or relevant parties to understand the scope, nature, and operating process of the service providers in order to monitor and evaluate the service providers accurately and creditably

(4) Arrange to have written documents on problematic or risk issues, loss data, as well as received orders from relevant authorities in conjunction with outsourcing services for review by the Bank of Thailand. Such documents should be reported promptly to executive of the financial institutions so that such problems can be resolved in an appropriate and timely manner.

(5) Arrange to review the service provides regularly as deemed appropriate to the function group

7. Use of service providers that are companies in the same group or related companies

(1) Financial institutions may use a service level agreement to specify the minimum standards of services in place of a contract

(2) Foreign banks' branch may apply the selection process, contract and agreement, and monitoring, evaluating, auditing, and controlling of potential risks from outsourcing in accordance with those specified by the parent company, branch or regional office overseas.

(3) Financial institutions must comply with the outsourcing guidelines in the same manner use of other service providers and must pay attention to treatment and responsibility to customer and business continuity management of financial institutions and the service providers.

Attachment 4

Key issues to specify in the application for outsourcing

Principle

1. In outsourcing any function, the Bank of Thailand pays great importance to the fact that financial institutions can manage 3 key aspects, namely, business continuity, consumer protection and management of risks associated with outsourcing (as already explained in the guidelines)

2. The Bank of Thailand hereby specifies key issues that financial institutions should submit to the Bank of Thailand in order to quicken consideration process as follows.

Actions

1. Financial institutions should initially consider grouping the work function to outsource, and clarify or explain to the Bank of Thailand to ensure that financial institutions have policies/ systems in accordance to the guidelines on outsourcing for such work function, comprising the key issues specified in the form below.

2. Financial institutions shall provide key summary / essence for each issue, together with details for each issue in the attachment. This is to ensure that financial institutions are aware and be able to fully comply with such issues.

The issues list in the form and information required is only the minimum requirements. Should financial institutions want to add more information, they should submit the information altogether. Moreover, financial institutions may alter the format as deemed appropriated, for example, use flow chart to explain work procedure.

Outsourcing : General function

No	Issue	Key summary /Essence (Detailed in attachment)
1. Operational risk management		
(1)	Policy and practical guidance on outsourcing	
(2)	Guidance on selection of service providers	
(3)	Monitoring, evaluating, and auditing of service providers	
(4)	Criteria for revision or termination of contract	
(5)	Reporting guidance on utilizing outsourcing services and problem incurred to the board of directors, senior directors, and the Bank of Thailand's examiners	
2. Customer protection management		
(6)	Protection of customer data <ul style="list-style-type: none"> ▪ Guidance on customer information security e.g. deletion or removal of all customer data after outsourcing service is terminated and segregation of customer data from service providers' data ▪ Preventing the case where service providers disclose customer data to other persons for commercial use ▪ Penalty in case where service providers disclose customer data 	
(7)	Handling of complaints and problem solving <ul style="list-style-type: none"> ▪ Handling of complaint unit ▪ Guidelines and practical guidance on handling of complaints 	
3. Business continuity management		
(8)	Contingency plan	
(9)	Backup system during crisis situations for critical business function	

Sample of key risks of outsourcing

Risks of outsourcing can be categorized in 9 groups

1. Strategic risk e.g.

- (1) Service providers do not act in consistent with financial institutions' specified strategy

2. Reputational risk e.g.

- (1) Outsourced service providers are not in consistent with the specified standards
- (2) Outsourced service providers are not in consistent with financial institutions' service standards

3. Compliance risk e.g.

- (1) Service providers do not comply with relevant financial laws
- (2) Service providers do not comply with relevant laws on consumer protection
- (3) Service providers do not have adequate compliance system and internal control

4. Operational risk e.g.

- (1) System error
- (2) Ineffective internal management of service providers
- (3) Fraudulent cases
- (4) Risk that financial institutions cannot audit service providers

5. Counterparty risk e.g.

- (1) Loan quality under collection service of the service providers deteriorate
- (2) Underwriting or credit risk assessment is inadequate

6. Country risk ¹e.g.

- (1) Change or uncertainty of economic, political, social, and legal environment of overseas service providers
- (2) Complexity of managing business continuity of overseas business

7. Contractual risk e.g.

- (1) Enforceability risk for contract and agreement
- (2) For overseas service providers, international law enforceability or law enforceability in other countries

8. Access risk e.g.

- (1) Risk that financial institutions cannot access the service providers' information necessary for internal audit and examination by the Bank of Thailand or other regulatory authorities
- (2) Complexity of service providers' operations that obstruct compliance to the supervisory guidelines

9. Concentration and systemic risk e.g.

- (1) Many financial institutions use the same service provider
- (2) Financial institutions outsource many work functions with the same service provider

Note ¹ Financial institutions may apply guidelines on country risk management of the Bank of Thailand