

Amendments in
Framework for Risk Management in Outsourcing Arrangements by Financial Institutions
issued vide BPRD Circular No. 06 dated June 20, 2017

Amendments in Definitions, Section VII (d) and Section IX (a)

Ref.	Provisions	Amendments
Definitions	Personally Identifiable Information (PII): (not defined)	Personally Identifiable Information or PII means any information relating to an identified or identifiable natural person who can be identified, directly or indirectly, in particular by reference to an identifier.
Section VII (d)	In case where outsourcing arrangements involve disclosure of confidential customer information to service provider, the FIs shall seek consent of the customer and prior written approval of SBP. Such approval is necessary regardless of the fact that the specified data/information is provided to a third party or head office of foreign banking company, it's holding or Group Company.	In case where outsourcing arrangement involves confidential customer information, FIs shall: <ul style="list-style-type: none"> i. Seek specific consent of the customer or encrypt or anonymize PII of customers so that their identities cannot be readily inferred. ii. Retain information of all such cases, which will be reviewed by SBP team during on-site inspection.
Section IX (a)	Any outsourcing arrangement outside Pakistan will require SBP's prior approval subject to approval of the Country Head. All such requests shall be signed by the Head of compliance and include details of the functions to be outsourced, rationale for the outsourcing, details relating to the proposed service provider, agreement with the service provider, business continuity plan, disaster recovery arrangements and a legal opinion that the arrangement does not violate any relevant local law.	Any outsourcing arrangement outside Pakistan, excluding group outsourcing , shall require SBP's prior approval. All such requests shall be signed by the Head of compliance and include details of the functions to be outsourced, rationale for the outsourcing, details relating to the proposed service provider, agreement with the service provider, business continuity plan, disaster recovery arrangements and a legal opinion that the arrangement does not violate any relevant local law.

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Amendments in Section X

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Section X (a)	The FIs shall obtain prior approval of SBP before entering into outsourcing arrangements with the Group.	<p>a) Group outsourcing is defined as arrangement where Financial Institutions including Foreign Banks' branches enter outsourcing arrangements including technological support services from their parent Institutions/ subsidiaries/ Head Offices or other branches of Foreign Banks/ related group entities formulated for providing specialized services to group companies inside or outside Pakistan.</p> <p>b) The instructions in this section are applicable to all outsourcing arrangements with the group companies as defined in para (i) above.</p>
Section X (b)	Before submission to SBP, the activity to be outsourced shall be approved by the board of the bank. The application forwarded to SBP for approval shall be signed by the Head of compliance and shall include details of the functions to be outsourced, rationale for the outsourcing, details relating to the proposed service provider, agreement with the service provider, business continuity plan, disaster recovery arrangements and legal opinion that the arrangement does not violate any local law.	<i>*please refer to the text below</i>

***Group Outsourcing**

- i. Group Outsourcing shall be the part of 'Outsourcing Policy' of FI (s) which will include detailed criteria for obtaining technological support and other support services from group companies. The criteria shall, at a minimum, include nature of services required from group, criteria for need analysis and risk assessment of such arrangement, terms & conditions to be covered in the agreement with group companies, pricing, primary & DR locations, contingency planning and mechanism for ongoing monitoring of terms & conditions of agreement etc.
- ii. All outsourcing arrangements with group shall be approved by FI(s) in line with their 'Outsourcing Policy'. For outsourcing arrangement involving customers' information, FIs shall
 1. Seek specific consent of the customers or encrypt or anonymize PII of customers so that their identities cannot be readily inferred.

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2. Retain information of all such cases, which will be reviewed by SBP team during on-site inspection.
- iii. FI (s) shall obtain legal opinion before entering into outsourcing agreement that the arrangement with group entity does not violate any law.
- iv. Security, integrity, confidentiality and liability of data/information including confidential customer information and compliance with laws and regulations of host country shall be the sole responsibility of the FI(s)'s Pakistan Operations.
- v. FI(s) shall ensure that technology support services arrangements comply with information/cyber security standards and relevant provisions of SBP's Enterprise Technology Governance & Risk Management Framework issued vide BPRD Circular No. 05 of 2017.
- vi. For obtaining technological/support services from group, FI(s) shall sign a written legally binding contract/Service Level Agreement (SLA) with the group companies covering at a minimum: -
 - 1) Description of services;
 - 2) Roles and responsibilities of each party;
 - 3) Confidentiality & right of access;
 - 4) Contingency planning, disaster recovery and business continuity;
 - 5) Responsibilities in times of Recovery and Resolution of the entity;
 - 6) Payment and pricing (if any);
 - 7) Unhindered access of data to SBP as and when required;
 - 8) Exit strategy, including data access rights to SBP in case any party ceases to exist.
- vii. Requests to SBP for remittance against outsourcing services obtained from group companies shall be accompanied by a certificate from external auditor (of the group company) that the basis of costs charged to the FI are in line with the internationally accepted arm's length principles for transfer pricing. While submitting the case, FI shall refer the adopted standard; give detail of the price calculation methodology under the adopted standard and reason for adopting the standard and the particular price calculation methodology. SBP has the right to cap such remittances for an individual bank/subsidiary/branch.
- viii. FI (s) shall have Business Continuity Plan in place to minimize the risk of downtime and that procedures are in place to protect against, and deal with, service disruption events. In case of exit from outsourcing arrangement, FI shall have contractual right to continue with the arrangement till such time the FI is able to switch to substitute arrangement.
- ix. FI(s) shall ensure that SBP and its internal/external auditors shall have the contractual right to inspect and audit all information relating to the outsourced function at any time without restriction. For this purpose, outsourcing arrangement shall not be allowed to entities or jurisdictions where visits by the staff of the FIs, their external auditors or SBP officials will be impractical / prohibited.
- x. FI(s) shall carry out comprehensive audit for outsourcing arrangements outside Pakistan at least once every two years. However, foreign banks operating in branch mode shall follow the policy of head office for audit of such arrangements.

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Amendments in Section XIV (d) and Annexure-A relating to list of activities that cannot be performed through insourcing

Ref.	Provisions	Amendments
Section XIV (d)	IT outsourcing shall not be allowed for critical IT systems/functions and applications of the FIs like core banking applications including Branchless Banking, mobile wallets of Branchless Banking, Main database, databases relating to information of customers, information security and Primary & Disaster Recovery Sites.	IT outsourcing shall not be allowed for critical IT systems/functions and applications of the FIs like core banking applications including Branchless Banking, mobile wallets of Branchless Banking, databases relating to information of customers, information security and Primary & Disaster Recovery functions.
4(a) of Annexure-A	Insourcing of Card production Activity is not allowed under.	Removed
7(d) of Annexure-A	Insourcing of Data Centre & DR site is not allowed under	Removed
10(d) of Annexure-A	Insourcing of Information Technology & Systems Audit is not allowed under.	Removed
