



External Relations Department

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SBP Issues Framework for Risk Management in Outsourcing Arrangement by Financial Institutions

State Bank of Pakistan has revised the 'Guidelines on Outsourcing Arrangements' with the objective to enable Financial Institutions (FIs) including Banks, Microfinance Banks and Development Finance Institutions to effectively manage the potential risks associated with outsourcing arrangements. The revised instructions are termed as "Framework for Risk Management in Outsourcing Arrangement by Financial Institutions".

State Bank of Pakistan (SBP) earlier introduced the Guidelines on Outsourcing Arrangements for banks/DFIs in 2007. The Guidelines were issued in view of the increasing use of outsourcing of services by banks/DFIs and potential impact of associated risks and obligations to customers.

The framework is based on international standards and best practices on the subject. These instructions aim to enhance the proactive environment in FIs on various aspects of the outsourcing including but not limited to governance, risk management, insourcing of services, group outsourcing, outsourcing of foreign branches of banks, information technology outsourcing and collaboration/outsourcing arrangements by FIs with Fintechs (Financial Technologies). Besides, the Framework also encompasses the list of critical functions/activities that cannot be performed by employees of the 3rd party service providers.

All new outsourcing arrangements by FIs shall be governed under this framework. The FIs, while deciding to outsource any function, activity or process, shall ensure that outsourcing neither effects the protection available to depositors or investors under the existing legal framework nor the same shall be used to avoid compliance with the regulatory requirements. The FIs are required to ensure that their existing outsourcing arrangements would be aligned with this framework latest by June 30, 2018.
