

INTERAGENCY
MINORITY DEPOSITORY
INSTITUTIONS
NATIONAL CONFERENCE

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*KNOW YOUR BUSINESS * GROW YOUR BUSINESS*

Outsourcing

3rd Party Relationships
(Consideration for Bankers)

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Types of Outsourcing Arrangements

- Software development/maintenance
- Loan operations
- Help desk
- Call centers
- Infrastructure support
- Origination, processing, & settlement of payments
- Security monitoring & testing
- Network operations





Outsourcing Benefits

- Cost
- 24/7 availability
- Free up internal resources for other projects
- Reduce time to market
- Remain competitive
- Enhanced expertise from outside resources
- Improved quality





Outsourcing Risks

- Operational
- Strategic
- Reputation
- Credit
- Compliance
- Country
- Other risks
- Interest rate, liquidity, & price





What Regulators Look For

- A vendor management program that addresses due diligence, contract provision, and ongoing monitoring requirements
- Service provider relationships are reported within 30 days
- Domestic or foreign service providers
- Oversight of outsourcing arrangements
- Information security and privacy concerns





What Regulators Must Do?

- Encourage identification of 3rd-party contracting arrangements
- Notification requirements:
 - Bank Service Company Act
 - Home Owners Loan Act
- On-site examinations
- Offsite monitoring





What Must Banks Do?

- Risk assessments & strategic planning
- Due diligence in selecting 3rd parties
- Contract structuring and review
- Ongoing oversight of all 3rd parties and 3rd parties activities
- Information security program compliant with sections 501 (a) and (b) of GLBA





Outsourcing Considerations

- Ensure each outsourcing relationship supports the overall requirements and strategic plans
- Ensure sufficient expertise to oversee and manage the relationship
- A well developed acceptance criteria exists to evaluate proposals based on the scope and criticality of service
- Notify primary regulator of outsourcing relationships (BSCA)





Offshoring Risk

- Country risk
- Compliance risk
- Due diligence
- Contracts
- Monitoring & oversight
- Regulatory agency access to information
- Examination considerations





Offshoring Structure

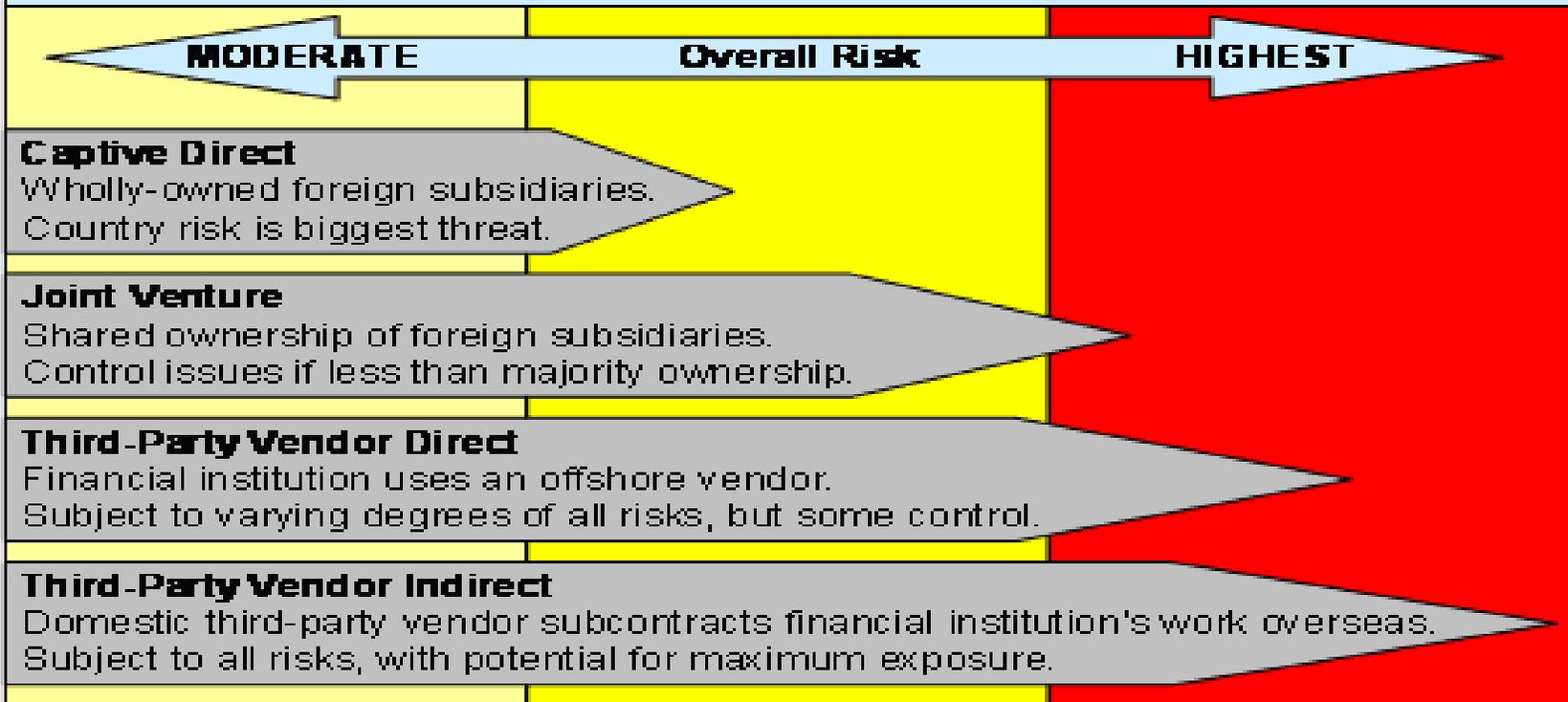
- Captive direct
- Joint venture
- Direct 3rd party
- Indirect 3rd party





Forms of Offshoring & Associated Risks

Operations/Transactional Risk: Weak controls may affect customer privacy.
Compliance Risk: Offshore vendors may not have adequate privacy regulations.
Strategic Risk: Different country laws may not protect "trade secrets."
Credit Risk: Vendor may not be able to fulfill contract due to financial losses.





Road to Signing a Contract

- Identify the work to be performed with the necessary controls
- Solicit RFP that meets:
 - Bank's objectives, scope and nature of the work
 - Expected service levels
 - Delivery timelines
 - Control measures
 - Bank's policies for security, business continuity, change control, and auditing
- Responses to the RFP may need to be adjusted
- Review by purchasing/legal staff





Guidance - 3rd Party Relationships

- FFIEC IT Handbook Outsourcing Technology Services
- TB-82a: Third Party Arrangements
- FIL-49-99: Bank Service Company Act
- FIL 81-2000 Risk Mgmt. of Tech. Outsourcing
- OCC Bulletin 2002-16: Third Party Service Providers
- FIL-50-2001: Bank Technology Bulletin: Technology Outsourcing Information Documents
- FIL-68-2001: 501(b) Examination Guidance
- FIL-23-2002: Country Risk Management
- FIL-52-2006: Foreign-based Third-Party Service Providers





Regulatory Guidance

- FFIEC Information Technology Handbook
“Outsourcing Technology Services Booklet”
- FDIC
- OCC
- OTS





Industry Sources

- ABA
- ICBA
- BITS
- National Bankers Association





Additional Resources

- www.ffiec.gov
- Any FFIEC member agency website:
 - www.fdic.gov
 - www.occ.treas.gov
 - www.ots.treas.gov
- ◆ www.legalzoom.com





Thank You

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