Dear FSB members,

The purpose of this email is to answer the questions included in the attached document, according to your request:

What do you consider the key challenges in identifying, managing and mitigating the risks relating to outsourcing and third-party relationships, including risks in sub-contractors and the broader supply chain?

The key challenges identified in managing the labelled outsourcing risk are the following:

- Cybersecurity risks. Currently, the exchange of information has become one of the bases of the provision of outsourcing services in the financial sector, for instance in the field of back-office processes, the provision of technological services, the maintenance of remote channels and transactionality. The management of cybersecurity risks must reach the entire supply chain, constantly guaranteeing the security of shared information, as well as the availability of the provision of services by third parties, due to their impact on the development of banking processes.
- Country risk management and its regulatory impact. Regarding the current market trend towards a provision of services carried out by global providers, specifically affecting the cloud, it is especially important that financial regulators guarantee the existence of a clear legal and regulatory framework. Recent events such as the elimination of Privacy Shield guarantees, which occurred a few months ago, or Brexit pose a risk to the continuity of the provision of services with short capacity for action for financial institutions.
- Considering other risks such as market or capital risk, outsourcing risk requires the development of new methodologies, as well as the creation of specialized units for its management and valuation. This section also includes the setting of outsourcing risk, as well as its calibration for subsequent incorporation within the framework of risk appetite for financial institutions.

What are possible ways to address these challenges and mitigate related risks? Are there any concerns with potential approaches that might increase risks, complexity or costs?

To face these challenges, the following actions have been identified:

- The reinforcement of cybersecurity risk management systems.
- Specialization in outsourcing risk management.
- The review of the contractual documentation, establishing the necessary guarantees for the risk management.

This implies the need to increase the endowment of internal and external resources allocated to outsourcing risk management, as well as a lengthening of the deadlines in the contracting processes.

What are possible ways in which financial institutions, third-party service providers and supervisory authorities could collaborate to address these challenges on a cross-border basis?

Regarding the potential options for contribution between all interested parties within the financial sector, for the management of outsourcing services and contracting services with third parties, the following are identified:

- The creation of a common global approval process, which allows greater agility in the supplier contracting processes, in such a way that all the necessary conditions for supplier risk management are guaranteed.
- The definition of a supplier guaranteed certificate that ensures the aptitude for the provision of services on a global basis within the financial sector.
- The unification of national regulations in relation to outsourcing management.

What lessons have been learned from the COVID-19 pandemic regarding managing and mitigating risks relating to outsourcing and third-party relationships, including risks arising in sub-contractors and the broader supply chain?

The main lesson learned from COVID-19 has been the importance of having comprehensive, up-to-date and proven continuity plans for all critical service providers. In this sense, the internal processes in this area have been reinforced, as well as the contractual documentation, to guarantee the continuity of the services in proper security conditions.

The responsiveness of providers has also been essential, as well as the existence of more than one provider in the provision of certain services, which allows redirecting the activity due to the existing situation.

Appreciate if you could confirm us the reception of this email.

Yours sincerely,

José Luis Vázquez Rodríguez
Director
Dirección de Centro de Control de Externalizaciones

Bankia

P.º de la Castellana, 189
28046 Madrid
914239794
www.bankia.com