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"2020, AÑO DE LEONA VICARIO, BENEMÉRITA MADRE DE LA PATRIA"

Questions and answers regarding Outsourcing and third-party relationships

- 1. 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?**

Third-party regulation and monitoring are required to provide services such as critical operational processes that handle sensitive information from clients and financial institutions themselves. We consider that the regulators and supervisors should have the power to review the automated systems and processes that the third party provides as part of the contracted service, request information on audits, and exercise acts of authority in the contracted third parties' offices.

Likewise, financial entities must certify that the contracted third parties reside in countries whose internal law protects personal data, safeguard their due confidentiality, or that said countries have signed international agreements with Mexico to exchange information between supervisors (MoU).

- 2. 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?**

The regulation does not always evolve alongside technology; in this regard, it is necessary to strengthen and modernize the supervision schemes that, to this day, are still mostly carried out in person, as well as enable new supervision tools (SupTech) that allow monitoring the services provided by third parties in all financial institutions. The above, considering all those technologies that are revolutionizing the current ecosystem in which the Mexican Financial System operates. At the same time, over-regulation that could inhibit access to better financial services must be avoided.

- 3. 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?**

Cooperation between financial authorities is essential. In this sense, the CNBV maintains information exchange mechanisms and cooperation schemes with its foreign counterparts to combat illegal practices that could harm clients or threaten the Financial System's integrity. Memorandums of Understanding (MoU) provide access to non-public documents and information that are in possession of the authorities and include agreements to obtain additional information and documentation. Cross-border information exchange between authorities plays an integral role in the effective surveillance of markets worldwide.

- 4. 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?**

As part of the lessons learned from COVID19 associated with the management and administration of risks associated with third parties, some actions to improve were identified as part of the supervision of financial institutions, which are the evaluation of risks regarding the different





scenarios sufficiently recognized by financial institutions; however, third parties and their subcontractors do not contemplate them.

Cloud services have acquired a relevant role to make available to financial institutions with a certain level of urgency, remote or collaboration tools for them; however, we are also leading the migration of services in this impulse or inertia of financial interfaces or even financial transaction operations systems, so the possible anticipation and management of risks on the critical processes in which the services of third parties are involved should also be included, and concerns regarding the outsourced third parties which increases the level of complexity that the entities have documented and identified as part of their risk identification.

The tests to which the business continuity plans are subject to, must include those exercises where they intersect with the entities and third parties' critical services, thus exhausting the possible scenarios that, although they have little probability of occurrences, such as pandemics and natural disasters, can happen.

