

Colleagues FSB:

The **SUPERINTENDENCIA DE BANCOS Y DE OTRAS INSTITUCIONES FINANCIERAS DE NICARAGUA (SIBOIF)**, believes that the paper “Regulatory and Supervisory Issues Relating to Outsourcing and Third-Party Relationships” (November 2020), is a comprehensive analysis of the main issues regarding this matter, providing an up to date guide on how other jurisdictions are dealing with the risks associated with outsourcing and third – party relationships in the regulated financial industry. Up next, we present our comments to the four questions stated in the paper:

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?

We believe that one of the main risks are the ones related with sub-contractors that are not subject to supervision. Even though that our regulation establishes that when a material operation is outsourced, the bank must establish in the contract that the third-party provider must allow access to the Regulator and that they must comply with stringent selection criteria, unregulated providers pose their own set of challenges because they are not accustomed to complying with regulations and/or are sometimes unaware of the regulatory obligations of their clients.

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?

Even though, we believe that our regulation regarding third-party relationships contains most of the best practices identified in the paper, such as that board or senior management are ultimately responsible for any activities, functions, products or services which they outsource; conducting due-diligence before entering an agreement with a third party provider; the ability to request information directly from third parties relevant to our objective; and to carry out on-site inspections; dealing with providers that are not subject to a stringent set of regulations on par to the ones applicable to the financial institutions, continues to be a challenge.

One possible way to address this is by closely working with the financial institution so that there is a clear understanding from both the Regulator and the financial institution of the associated risks, by making sure that the board of directors and senior management establish a comprehensive risk management program that is in accordance with the materiality of the functions being outsourced. However, as stated in the paper, this requires a close working relation at the beginning to achieve this objective, and that both the regulator and the financial institutions have appropriate resources and skills to effectively address third-party risks, which might increase costs.

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?

In the case of third party relations on a cross border basis, it is particularly important that the financial institution not only obtain appropriate assurances any cross-border elements in these arrangements will not prevent them from complying with our jurisdictions’ regulatory obligations, but it is also critical to establish a strong working relationship with the cross border regulators to improve cross border supervision of these providers.

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?

We believe that one of the key issues, whose importance was highlighted during the COVID-19 pandemic, is the importance of implementing appropriate and effective business continuity plans and exit plans, to ensure that financial institutions can recover from an outage or failure at a service provider and, if necessary, exit these arrangements in a way that minimizes potential disruption.

Greetings;

Álvaro García Herdocia

Director de Normas

Dirección de Normas

(505) 2298 2100 c Ext 4212

(505) 7826 2900 m

agarcia@siboif.gob.ni

www.siboif.gob.ni



Superintendencia de Bancos y de
Otras Instituciones Financieras