

# Bermuda Monetary Authority Outsourcing Guidance – Are you ready?



The Bermuda Monetary Authority (BMA) has issued outsourcing guidance notes for the Relevant Licensed Entities (RLEs). It requires RLEs to have in place adequate policies and procedures to manage and monitor existing activities that have been outsourced, as well as to assess the risks arising from outsourcing new activities.

## Relevant Licensed Entities are:

- Banks;
- Deposit Companies;
- the Bermuda Stock Exchange;
- Corporate Service Providers;
- Trust Companies;
- Money Service Businesses;
- Investment Businesses;
- Fund Administrators; and
- Credit Unions.

This guidance will come into force from **1 May 2020**. Upon reviewing this guidance, senior management of an RLE should identify whether they have any existing outsourcing arrangements that constitutes a material outsourcing.

## Management responsibilities

- Establish the risk appetite for outsourcing activities and what activities constitute outsourcing at the RLE.
- Define the criteria for determining what constitutes a material outsourcing at the RLE.
- Define the evaluation process as to whether and how an activity should be outsourced and due diligence to be undertaken in selecting an appropriate service provider.
- Understand the structure and content of the outsourcing arrangement between RLE and service provider.

- Perform routine assessments on third parties around the globe in a consistent and repeatable manner that produces actionable results by senior management.
- Ongoing management and monitoring of outsourcing arrangements post-implementation.
- Govern outsourcing relationships by written agreements that clearly detail all material elements of the arrangement.

## Definitions



### Outsourcing

An arrangement in which the RLE uses a third-party (the outsourcing service provider) to perform activities on an ongoing basis that are integral to the provision of services by the RLE itself that would otherwise be undertaken by that licensed entity.



### Outsourcing Service Provider (OSP)

A third-party legal entity that provides a service to the RLE. This third-party entity may be licensed or not and may be an affiliated entity within the RLE's own corporate group or an entity external to the RLE's group.

## Existing Outsourcing Arrangements

The BMA provides two options for existing arrangements:

**Option A - Prior Approval:** Available until 3 January 2020 (Prior Approval Deadline) - In the case senior management of an RLE has identified an existing outsourcing that constitutes a material outsourcing, the RLE can seek prior approval for this outsourcing from the Authority prior to the January deadline.

**Option B - CEO Attestation:** (Due Date 30 April 2020 - The CEO of the RLE can write to the Authority formally attesting the existing material outsourcing complies with all aspects of this new guidance. This attestation will subsequently be verified through the Authority's ongoing supervisory program post guidance implementation.

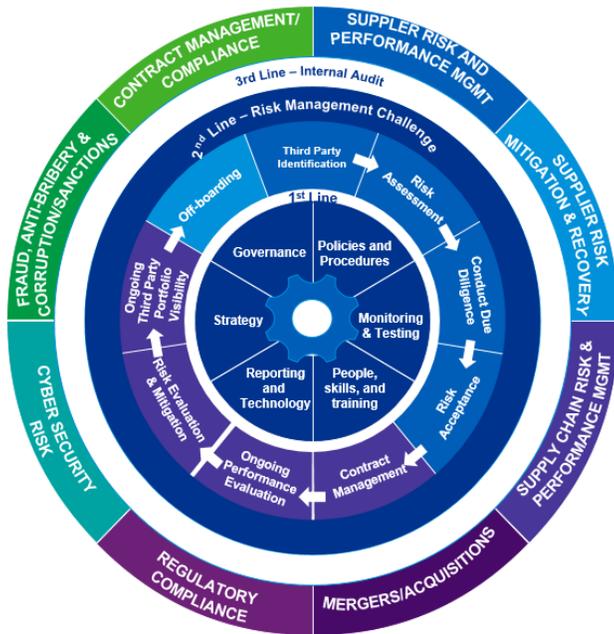
## New outsourcing arrangements

After 1 May 2020, the Authority would expect the proposal for any new material outsourcing to contain at a minimum a high-level summary explaining the reasons the RLE wishes to enter into an outsourcing with the service provider.

## KPMG's approach

The newly introduced regulation requires organisations to know, assess, and monitor the universe of their third parties, as well as the inherent risks to the organisation through the use of third parties. **KPMG's third party risk management (TPRM)** approach can help to develop new and/or assess existing programs.

## KPMG's third party risk management (TPRM) Approach



## Potential benefits to you

The following benefits may be achieved as a result of TPRM transformation:

- Clear understanding of which third parties you do business with.
- Services are ranked according to risk with critical services identified.

- Risk-based approach to ongoing monitoring post contract.
- Greater use of technology and automation to manage third parties.
- Greater consistency of practices across the organisation with regards to treatment of third parties.
- Increased understanding of the third party risk management activities and policy requirements across the relationship owners.
- Clearer understanding of the cost benefits analysis factoring in the true cost of oversight for services.

## How to avoid the top third party management mistakes:

1. Review the financial health of your private suppliers.
2. Analyse geopolitical forces to identify third party network vulnerabilities before they turn into real problems.
3. Monitor early warnings for quality, consistency and reliability.
4. Identify where supplier constraints and material shortages could impact your third party network.
5. Use real-time data to better understand your third-party ecosystem and gain a competitive advantage in a radically shifting supplier landscape.
6. Have processes in place to monitor and manage suppliers who are struggling with quality, consistency or delivery, communication, coordination and collaboration can head off future disruptions.
7. Recognise that cybersecurity is not just an IT risk. It can create the same sort of third party network vulnerabilities as a natural disaster.
8. Implement a system to monitor, evaluate and identify vulnerabilities with high-impact vendors.
9. Make sure you can assess third party network vulnerabilities in a fully integrated business, from product development to point-of-sale and beyond.

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