

**Banking Regulation and Policy Department
Bangladesh Bank
Head Office
Dhaka**

BRPD Circular No-02

19 January, 2015

Date: 06 Magh, 1421

Managing Director/Chief Executive
All bank-companies operating in Bangladesh

Dear Sir,

Guidelines on Outsourcing Arrangements

Banking institutions throughout the world are increasingly using 'outsourcing' as a means of both reducing costs and achieving strategic aims. When these third-party service providers conduct significant parts of the bank's regulated and unregulated activities, it may impact on the ability of banks to manage their risks and monitor their compliance with regulatory requirements.

Banks can mitigate these risks by taking steps to: draw up comprehensive and clear outsourcing policies, analyze the financial and infrastructure resources of the service provider, negotiate appropriate outsourcing contracts, require contingency planning by the outsourcing firm, and establish effective risk management programs.

This Circular spells out in detail a set of guiding principles, to be followed by banks in Bangladesh when using outsourcing at home or abroad, that would help banks better mitigate the concerns.

1. Definitions.

(a) Outsourcing: Outsourcing is when any activity of a bank-company or part thereof done by another party (Service Provider) from inside or outside the bank premises, from within Bangladesh or abroad irrespective of the term used for the relationship.

(b) Service Provider: An outsourcing Service Provider can be an office of the banking company situated outside Bangladesh, its holding or subsidiary company or any of its affiliates in Bangladesh or abroad, or an unrelated third party in Bangladesh or abroad.

(c) Sub-contracting: Sub-contracting is when a service provider uses any of its office situated outside Bangladesh, its holding or subsidiary company or any

of its affiliates in Bangladesh or abroad, or an unrelated third party in Bangladesh or abroad for any part of the activities outsourced to it.

(d) **Confidential information:** Confidential information includes information which can lead to identification of the customer, customer's credit reports, customer's balances and transactions, suspicious activity report and information, information not publicly available, and any other information considered confidential by laws and regulations in Bangladesh. It also includes regulators' reports & instructions, ratings and price sensitive information of the bank.

2. Outsourcing Policy.

(a) A bank seeking to outsource activities shall develop a comprehensive policy duly approved by its Board of Directors [Chief of Bangladesh operations in case of foreign banks]. The policy should include, inter-alia, identification of and the extent to which the relevant activities are appropriate for outsourcing, criteria for selecting suitable service providers, delegation of approval authorities for outsourcing depending on risks and materiality, risk mitigation measures and governance structure clearly defining roles and responsibilities of Board of Directors and management to monitor and review the operations.

(b) The Board [Chief of Bangladesh operations in case of foreign banks] has overall responsibility for ensuring that all ongoing outsourcing decisions taken by the bank, and activities undertaken by the service providers, are in keeping with its outsourcing policy. In addition, the officers responsible to manage a specific outsourcing arrangement shall also be personally responsible where personal liability needs to be assigned to individual bank officials for legal, regulatory or others purposes.

3. Outsourced Activities.

(a) Generally, banks should only outsource the activities which can be effectively supervised by them and compliance with applicable legal and regulatory requirements can be ensured.

(b) Banks shall not outsource its core management functions, any of its risk management functions or core banking operations. However, in case of foreign banks, parts of its core management functions or risk management functions can be operated by any of its offices from outside the country subject to fulfilling conditions mentioned in Paragraph 8 (Outsourcing Abroad) of this Circular.

(c) Statutory Audits, Legal and Professional Advisory Services, Drawing Arrangements, Foreign Correspondent Banking, and activities not related to banking services like usage of courier, housekeeping and janitorial services, catering, security of bank premises, utilities, telephone and telecommunication services, usage of media or firms for advertisements, printing of stationeries (except cheques, drafts, etc.) shall not be considered as outsourcing and the instructions of this Circular are not applicable to those activities.

(d) Banks can outsource the activities listed in Annexure-1 to Service Providers in Bangladesh without prior approval of Bangladesh Bank. Any bank may approach Bangladesh Bank for clarification if it is uncertain whether a particular arrangement falls within these activities.

(e) Sub-contracting by the service provider of material outsourcing arrangements both in case of local and abroad is not allowed. Material outsourcing arrangements are those, which if disrupted, have the potential to significantly impact the business operations, reputation or profitability.

(f) Moreover, an activity should not be outsourced if it would impair Bangladesh Bank's right to assess, or its ability to supervise, the business of the bank.

(g) With regard to services related to Doorstep Banking, SME Service Centers, Mobile Financial Services, Agent Banking, or any other special activity endorsed and guided by specific circulars or guidelines issued by Bangladesh Bank, instructions of this Circular shall also be applicable to the extent possible. However, in case of any conflict, relevant provisions of the specific circular or guideline shall prevail over this Circular.

4. Selecting Service Providers.

(a) Banks must develop criteria that enable them to assess, prior to selection, the service provider's capacity and ability to perform the outsourced activities effectively, reliably and to a high standard, together with any potential risk factors associated with using a particular service provider.

(b) Appropriate due diligence should include at a minimum: (i) service provider's legal status, formation documents and availability of required licenses or approvals for doing the outsourced activity (ii) experience and competence of service providers to perform outsourced work; (iii) service provider's financial soundness to fulfill its obligations; (iv) performance standards, reputation, compliance culture, past regulatory measures and corrective actions, outstanding or potential litigation; (v) security and internal control; (vi) audit coverage, reporting & monitoring environment, business continuity planning; and (vii)

capability to meet special needs, such as servicing geographically dispersed activities.

5. Outsourcing Agreement.

(a) Outsourcing relationships should be governed by legally enforceable written contracts that clearly describe all material aspects of the outsourcing arrangement, including the rights, responsibilities and expectations of all parties.

(b) At a minimum, the outsourcing agreement should address the following issues:

- (i) Description of activities to be outsourced, including appropriate service and performance levels;
- (ii) Bank's ability to access all books, records and information relevant to the outsourced activity in the service provider, and conduct audits thereof;
- (iii) Provision for continuous monitoring and assessment by the bank of the service provider so that any necessary corrective measures can be taken immediately;
- (iv) Termination clause and minimum periods to execute a termination provision, if deemed necessary;
- (v) Provisions relating to insolvency or other material changes in the corporate form, and clear delineation of ownership of intellectual property following termination;
- (vi) Provisions for confidentiality of customer's information, and transfers of information back to the bank and other duties that continue to have an effect after the termination of the contract;
- (vii) Where appropriate, conditions of subcontracting by the service provider for all or part of an outsourced activity;
- (viii) Establish and maintain contingency plans, including a plan for disaster recovery and periodic testing of backup facilities.
- (ix) Provisions to effect that Bangladesh laws will be the applicable law and Bangladesh courts will have exclusive jurisdiction over the agreement.

(c) The contract should neither prevent nor impede the bank from meeting its respective regulatory obligations. It should also include clauses to allow Bangladesh Bank to exercise its regulatory powers, including access to documents stored or processed by service provider and cause an inspection to be made.

(d) The minimum wages declared by the Government of Bangladesh must be taken into consideration while determining the agreed rate of wages, salary, compensation, etc. to be paid against services provided by the staff employed by the service provider; and, details of such rates must be clearly stated in the contract. Banks should ensure that such wages, salary, compensation, etc. are paid to the staff by the service provider in proper amount and in timely manner through their respective bank accounts.

6. Customer Interest Protection.

(a) Banks should ensure that all information prohibited from sharing by laws or regulations are not disclosed to service providers and take appropriate steps to require that service providers protect confidential information of both the bank and its clients from intentional or inadvertent disclosure to unauthorized persons.

(b) A bank should also consider whether it is appropriate to notify customers that customer data may be transmitted to a service provider, taking into account any statutory provisions that may be applicable.

(c) Banks and each of their service providers should ensure that it is clear to customers and other stakeholders whether they are interacting with a bank official or an outsourced service provider.

(d) Outsourcing arrangements should not affect the rights of a customer against the bank, including the ability of the customer to obtain redress as applicable under relevant laws.

(e) Banks should establish a well defined mechanism to redress the complaints of their customers regarding outsourced services and ensure that genuine grievances are addressed promptly.

7. Monitoring and Control.

(a) Banks should establish a comprehensive outsourcing risk management program for an ongoing monitoring and controlling of all relevant aspects of outsourcing arrangements and procedures guiding corrective actions to be taken when certain events occur.

(b) Banks should seek to ensure that service providers maintain appropriate IT security so that information with them and in transit between them and the bank is amply protected.

(c) Regular audits, at least annually for all outsourcing activities, should be conducted to assess the adequacy of outsourcing risk management practices of both the bank and its service providers.

(d) Banks and each of their service providers should establish and maintain contingency plans, including a plan for disaster recovery and periodic testing of backup facilities.

(e) Banks should ensure that outsourcing activity does not violate anti-money laundering regimes of Bangladesh as well as foreign jurisdictions.

(f) Banks should ensure that the persons engaged by the service provider and sub-contractor for the outsourced services are adequately trained at least to the extent that an employee of the bank doing such activity would be subject to.

(g) Banks should also review the financial and technical capabilities of a service provider on regular intervals to assess its ability to continue to meet its outsourcing obligation.

8. Outsourcing Abroad.

(a) When engaging service providers in a foreign country, banks should take into account and closely monitor government policies and political, social, economic and legal conditions in those countries, during the due diligence process and on a continuous basis after employing the service provider.

(b) Any outsourcing outside Bangladesh will require prior approval of Bangladesh Bank under Section 12 of the Bank Company Ain, 1991 regardless of the fact that the specified functions is conducted by or data is provided to an unrelated third party or any office of the banking company, its holding or subsidiary company or any of its affiliates. However, sharing of structured information of limited scope for management oversight of foreign banks shall not require such approval.

(c) All such request to Bangladesh Bank should include details of the functions to be outsourced, rationale for the outsourcing abroad, due diligence report of the proposed service provider, data to be transferred, legal opinion regarding confidentiality of data which should include opinion about the ability of authorities and courts abroad to seek or instruct data access, draft agreement with the service providers, description of the monitoring and control measures to be undertaken by the bank, list of already approved outsourcing abroad along with information of the service providers and activities outsourced, number of employees of the bank at year-end during the last three years, and plan for the employees if any job loss is expected due to proposed outsourcing.

(d) No approval will be granted where the arrangement involves direct interaction or communication between the service provider and customers, or disclosure or transfer of confidential customer information to unrelated third party as service provider or sub-contractor.

(e) When engaging service providers in a foreign country, banks should ensure that necessary information is also available domestically for continuing operation in case of a communication disruption and for inspection by Bangladesh Bank as and when needed.

(f) Outsourcing arrangements abroad should include provisions to allow Bangladesh Bank or persons authorized by it, if required, to access and inspect the documents, records and other information stored or processed by the service provider.

This circular is issued with the authority vested under section 12 and section 45 of the Bank Company Ain, 1991, which shall take effect immediately. Banks can initiate new outsourcing engagements only after being able to fully comply with the instructions of this Circular. All existing engagements must be made compliant, including taking approval from Bangladesh Bank where necessary, within 2015.

Yours faithfully,



(Saiful Islam)
Deputy General Manager
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List of allowed Outsourcing Arrangements

1. Storing or warehousing physical records and documents, electronic or virtual data.
2. Printing of Cheques, Drafts, Pay-orders, and other similar banking instruments.
3. Telephone operator or greeter.
4. Address and Document verification.
5. Call Center, Mail receiving and dispatch.
6. Marketing Credit or Debit Cards, Consumer or SME loans upto the stage before credit request preparation.
7. Credit related security verification, charge creation or registration, stock verification and valuation.
8. Recruitment process before face-to-face interviews.
9. Background checking and document verification of candidates and employees.
10. Payroll processing and Employee Benefit Programs.
11. CSR Programs.
12. Customer, Industry and Market survey.
13. Servicing cash in ATM, Booths, Utility bill collection booths.
14. Development and maintenance of customized software.
15. Maintenance of purchased software, hardware and other machines and equipment.
16. System/application access management and user support.
17. Installation and user support to customers for bank provided systems/applications.
18. Procurement processing except the decision making and contracting on behalf of the bank.
19. Sorting, filing and imaging records and documents.
20. Market and industry information or commentary received through subscription or free.