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| Client | The client is an e-commerce business allowing payments and money transfer through the internet. |
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| Project Name | Review of outsourcing arrangements |
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| Project Start Date | September 2010 | Project End Date | December 2010 |
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| Industry | <input type="checkbox"/> Commercial banking | <input type="checkbox"/> Insurance |
| | <input type="checkbox"/> Fund Custody & Investment Services | <input type="checkbox"/> Investment banking |
| | <input type="checkbox"/> Private banking | <input type="checkbox"/> Asset and wealth management |
| | <input checked="" type="checkbox"/> Retail banking | <input type="checkbox"/> Corporate |

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| Category of Service | <input checked="" type="checkbox"/> Performance measurement and monitoring | <input checked="" type="checkbox"/> Regulatory compliance and reporting |
| | <input type="checkbox"/> Portfolio risk management | <input checked="" type="checkbox"/> Business process improvement |
| | <input checked="" type="checkbox"/> Specialised risks | <input type="checkbox"/> Training and people change |
| | <input type="checkbox"/> Data Quality | <input type="checkbox"/> System selection and implementation |

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| The Challenge | <ul style="list-style-type: none"> The client has developed and operated a successful a business model that relies on utilising the resources of the global parent of the group and a judicious use of third parties to provide non-core services. The client is subjected to the regulatory controls of a financial institution. The client had been running the outsourced model for a number of years and was seeking confirmation that the relationships are consistent with prevailing law and good practice as it relates to outsourcing risk. The client was also seeking clarification that they comply with European level rules and regulation. |
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| Approach and Solution | <p>avantage undertook the assignment as part of a gap analysis, with an assessment of “what good looks like” in outsourcing as compared to current practice. Our approach was to adopt a pragmatic approach focusing in on material contracts (based on a risk assessment and resulting capital allocation), including:</p> <ul style="list-style-type: none"> a desk top review of applicable national legislation and European law and regulations; research and interviews with Regulators, service providers, and clients to gain an understanding of how the implementation of the relevant laws and regulations have changed (and may change) with a view to understand prevailing good practice; review of agreements, processes and systems used with respect to outsourcing; review of the risk appetite, outsourcing policy and procedures, risk assessment process, risk management and capital allocation; 1:2:1 Interviews with Stakeholders (including representatives from business, risk, compliance and finance) in order to understand the practical issues and considerations of outsourcing (such as whether resources and capability need |
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| | <p>be retained to bring back the outsourced activity in-house, or, the ability to effectively manage the outsourced activity including assessment and management of associated risks);</p> <ul style="list-style-type: none"> • To draft and debrief the results of the gap analysis in order to validate the gap assessment; • To draft and debrief with Stakeholders the suggestions for improvement; and • To review and validate the client’s Action Plan. <p>avantage were engaged to provide an objective assessment of outsourcing arrangements. The initial step was to meet with the key stakeholders, including members of the Executive Committee, Finance, Risk, and Operations, to agree the priority of outsourcing relationships to be reviewed; and obtain from them their views regarding whether these arrangement were effectively managed.</p> <p>An early challenge was to establish two benchmarks against which the existing practice would be compared and contrasted –regulatory compliance (national and European guidelines) and good practice – with an ability to distinguish between the two in order to build a case for business benefits and why the client may want to exceed the minimum requirement.</p> <p>After undertaking the gap analysis, avantage drafted a Report for initial discussion with Senior Management which highlighted the application of the prevailing regulatory approach to the client’s business, providing feedback as a series of observations and recommendations. Feedback was considered and the Report updated accordingly. We worked with the Client to prepare an Action Plan that would deliver and embed the recommendations. The outcomes were then discussed with representatives of the Board of Directors.</p> |
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| Results and Benefits | <ul style="list-style-type: none"> • A more transparent alignment of the business strategy to the outsourcing strategy through alignment of risk appetite to tolerance for losses arising from outsourced relationships, and a closer alignment of the risk infrastructure and capability in line with the changing business model; • Enhanced communication and understanding of the risks related to the outsourcing contracts; • Enhanced evidence of control over the outsourcing relationships • Enhanced measurement and reporting to ensure that the ERM and Legal functions delivery key performance and risk metrics targets for outsourcing required for business and regulatory purposes; • Measurement of the related party and third party outsourcing relationships through enhanced risk measurement and reporting; • Peace of mind ahead of a pending review by the Supervisor; • Increased focus on risk and capital metrics. |
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| Software used | <p>avantage proprietary ERM assessment tool tailored for the review of outsourcing arrangements.</p> |
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