



OUTSOURCING REQUIREMENTS

CONSULTATION

1.1 Outsourcing Arrangements

- 1.1.1 This Chapter sets out the CBB's approach to outsourcing by licensees. It also sets out various requirements that licensees must address when considering outsourcing an activity or function.
- 1.1.2 In the context of this Chapter, 'outsourcing' means an arrangement whereby a third party performs on behalf of a licensee an activity which was previously undertaken by the licensee itself (or in the case of a new activity, one which commonly would have been performed internally by the licensee). Examples of services that are typically outsourced include data processing, cloud services, customer call centres and back-office related activities.
- 1.1.3 In the case of branches of foreign licensees, the CBB may consider a third-party outsourcing arrangement entered into by the licensee's head office/regional office as an intragroup outsourcing, provided that the head office/regional office submits to the CBB a letter of comfort which includes, but is not limited to, the following conditions:
1. The head office/regional office declares its ultimate responsibility of ensuring that adequate control measures are in place; and
 2. The head office/regional office is responsible to take adequate rectification measures, including compensation to the affected customers, in cases where customers suffer any loss due to inadequate controls applied by the third-party service provider.

1.1.4

The licensee must not outsource the following functions:

1. **Compliance;**
2. **AML/CFT;**
3. **Financial control;**
4. **Risk management; and**
5. **Business line functions offering regulated services directly to the customers.**

1.1.5

For the purposes of Paragraph 1.1.4, certain support activities, processes and systems under these functions may be outsourced (e.g. call centres, data processing, credit recoveries, e-KYC solutions). However, strategic decision-making and managing and bearing the principal risks related to these functions must remain with the licensee.

1.1 Outsourcing Arrangements (continued)

1.1.6

Licensees must comply with the following requirements prior to signing any outsourcing agreement:

1. Prior CBB approval is required on any outsourcing to a third-party outside Bahrain (excluding cloud data services). The request application must:
 - a. include information on the legal and technical due diligence, risk assessment and detailed compliance assessment; and
 - b. be made at least 30 calendar days before the licensee intends to commit to the arrangement.
2. Post notification to the CBB is required on any outsourcing to an intragroup entity within or outside Bahrain or to a third-party within Bahrain or to a third-party cloud data services provider inside or outside Bahrain.
3. Licensees must have in place sufficient written requirements in their internal policies and procedures addressing all strategic, operational, logistical, business continuity and contingency planning, legal and risks issues in relation to outsourcing.
4. Licensees must sign a service level agreement (SLA) with every outsourcing service provider. The SLA must clearly address the scope, rights, confidentiality and encryption requirements, reporting and allocation of responsibilities. The SLA must also stipulate that the CBB, external auditors and internal audit and compliance functions of the licensee have unrestricted access to all relevant information and documents maintained by the outsourcing service provider in relation to the outsourced activity.
5. Licensees must designate an approved person to act as coordinator for monitoring and assessing the outsourced arrangement.
6. Licensee must submit to the CBB any report by any other regulatory authority on the quality of controls of an outsourcing service provider immediately after its receipt or after coming to know about it.
7. Licensee must inform its normal supervisory point of contact at the CBB of any material problems encountered with the outsourcing service provider if they remain unresolved for a period of three months from its identification date.

- 1.1.7 The CBB will provide a definitive response to any applicable outsourcing request for prior approval within 15 calendar days of receiving the request complete with all the required information and documents.