Outsourcing Policy

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Outsourcing Policy

# Introduction

On 27 July 2016, the Monetary Authority of Singapore (‘MAS’) has issued amended Guidelines on Outsourcing (the ‘Outsourcing Guidelines’) to financial institutions(‘FIs’) outlining the framework and procedures that FIs are required to implement in respect of all their outsourcing decisions. The Outsourcing Guidelines provide detailed requirements to be complied with by the FIs on evaluating each outsourcing arrangement with reference to criteria indicated by MAS and for identifying, measuring, analysing, monitoring and reporting outsourcing risks to Senior Management, the board of directors and the MAS. The Outsourcing Guidelines also provide governance responsibilities in the FI in setting the strategy and framework for outsourcing, articulating the business risk appetite in respect of outsourcing activities and ensuring arrangements for a continuous evaluation and upgrading of systems and controls to mitigate emerging risks.

MAS expects is that every FI that has entered into or intends to enter into an outsourcing arrangement with a service provider should evaluate the said arrangements in light of the Outsourcing Guidelines and take appropriate actions for effective outsourcing risk management, commensurate to the nature, scale and complexity of the FI’s business, keeping in view the requirements as stated in the Outsourcing Guidelines.

[Name] (the ‘Company’) is a [holder of a capital markets services license for fund management / registered fund management company]. It is thus subject to the Outsourcing Guidelines.

This policy should be considered and reviewed in conjunction with Outsourcing Guidelines – Enhanced Checklist maintained as a separate file. Accordingly, this document together with the Checklist stated above constitute the policy and framework for outsourcing, as required under the Outsourcing Guidelines. The following key aspects of the Outsourcing Guidelines are dealt with in the Checklist:

1. Assessment of outsourcing arrangements, including assessment of confidentiality and security;
2. Provisions to be included in outsourcing contracts;
3. Assessment of our outsourcing framework, including assessment of our business continuity management;
4. Outsourcing risk monitoring and reporting.

## Scope

This policy applies to the Company [and all its branches, and subsidiaries under its control in and outside Singapore].

This policy applies to all substantive engagements of third-party service providers by our Company.

## Objectives

Effective and timely management of business risks and ensuring arrangements for identifying, monitoring and mitigating risks are essential for a sustainable business. Managing outsourcing risks is an integral part of operational risk management.

While our Company should make use of outsourcing opportunities for its best benefit, it must at the same time manage and mitigate risks from its outsourcing arrangements.

## Principles

* The board of directors is responsible that our Company has a robust framework in place to manage outsourcing risk.
* The board of directors is responsible for setting a suitable risk appetite.
* Senior Management is responsible for the effective implementation of the risk framework.
* The Company must maintain outsourcing arrangements in accordance with the MAS Outsourcing Guidelines.
* All outsourcing arrangements are duly assessed for their balance of risk vs. benefit and to ensure that they do not expose our Company to excessive risk before our Company enters the respective outsourcing agreement. The assessment shall be commensurate with the nature of risks in and materiality of the outsourcing arrangement.
* All outsourcing arrangements must be approved by Senior Management.
* All outsourcing agreements are continually monitored and reviewed on a regular basis.
* Senior Management shall be notified of any material adverse developments.
* Senior Management shall review all review reports and evaluate the outsourcing arrangements.
* The board of directors is informed of all outsourcing arrangements and respective developments on a regular basis.
* The necessary notices shall be given and reports made to MAS.

# Policy Owner

The COO, on behalf of Senior Management, shall maintain this policy to ensure that it complies with the spirit and principles of the Outsourcing Guidelines and manages and mitigates risks from outsourcing commensurate with the size and nature of our business and operations.

The COO shall review this policy at least once in a year and propose suitable changes as may be required. Hereby, the COO shall in particular consider new risks, the effectiveness of our existing controls and options to strengthen the processes and risk management of our Company.

## Approval of Policy

This policy and any changes to this policy shall be approved by the board of directors.

# Role of Outsourcing and Outsourcing Strategy

As a small company, our Company does not have the resources to perform all activities connected to its business at highest standards in house. To ensure efficient and high-standard processes, our Company may engage external service providers to perform specific activities, where the workload at our Company does not justify the hiring of the in-house staff required for the task. This applies most of all in two scenarios.

* Labour intensive processes: In particular, where the workload peaks for short intervals, the hiring of permanent staff may not be economical. Even in these cases, where the additional resources are the primary goal, the Company must not neglect to consider the quality and reliability of the service obtained.
* Processes that require specialist skills: The skills of the external specialists shall complement the skills of our own staff to enhance our services and operations.

Our Company shall only engage outsourced services, where the following criteria are met.

1. The outsourced service is in line with our business strategy. The outsourced service must therefore support and/or enhance our services to manage assets of high net worth individuals, including their wealth management structures. [Please specify the business strategy as applicable to your company further, as applicable].
2. The service provider must have the required skills for the outsourced service. Preferably, we rely on respective recommendations and references from sources in the financial industry that we are familiar with. Alternatively, we may rely on other reliable sources.
3. The privacy of our clients is of high priority to our business. To the extent possible, our Company shall therefore not share customer information with any external party. Where necessary, customer information shall be shared on a need-to-know basis, to the extent possible on an anonymised basis.
4. The benefits of the outsourcing outweigh the option to carry out the activity in house.
5. The benefits of the outsourcing outweigh the risks of the outsourcing arrangement
6. The actual and potential risks arising out of any single outsourcing arrangement should not put the existence of our business as a whole or all of our clients’ assets at risk.

For the assessment regarding benefits and risks of outsourcing, the following should be considered.

* The benefits may include financial benefits as well as business opportunities. Hereby, it is important to ensure the fit of the outsourced activity with our business strategy and to also consider the likelihood of our business strategy not to be adversely impacted due to potential risks that may arise consequent to outsourcing.
* Risks include confidentiality, security, regulatory and reputation concerns. At the same time, our Company’s capability to effectively oversee the outsourcing arrangement and our Company’s expertise within business to manage outsourcing risks must be considered. Hereby, the risks must not only be considered for the individual outsourcing arrangement, but for the Company and all its engagements overall. Furthermore, the challenges of integrating the activity in house or of handing it over to another external party, when the need arises, must be considered.

# Outsourcing Process

Within the overall strategy outlined above and criteria outlined in the Outsourcing Guidelines, we shall evaluate, monitor and review each outsourcing arrangement keeping in view the actual and potential risks and whether or not such risks are acceptable to us.

## Evaluation for Outsourcing

The Compliance Officer in coordination with a person or group of persons appointed by the CEO qualified for the respective assessment shall evaluate the usefulness and soundness of every planned outsourcing and every material amendment to an outsourcing arrangement before the respective outsourcing agreement or amendments thereto, as applicable, is signed.

The Compliance Officer, or appointed person(s) shall analyse the benefits of the specific outsourcing vis-à-vis the risks of the outsourcing arrangement.

* The benefits may include financial benefits as well as business opportunities. Hereby, it is important to ensure the fit of the outsourced activity with our business strategy and to also consider the likelihood of our business strategy to be adversely impacted due to potential risks that may arise consequent to outsourcing.
* Risks include confidentiality, security, regulatory and reputation concerns. At the same time, our Company’s capability to effectively oversee the outsourcing arrangement and our Company’s expertise within business to manage outsourcing risks must be considered. Hereby, the risks must not only be considered for the individual outsourcing arrangement, but for the Company and all its engagements overall. Furthermore, the challenges of integrating the activity in house or of handing it over to another external party, when the need arises, must be considered.

The benefits of the outsourcing must outweigh the option to carry out the activity in house.

The board of directors or Senior Management shall approve every evaluation of outsourcing.

## Assessment of Outsourcing Arrangement

The Compliance Officer, or a person or group of persons qualified for the respective assessment, appointed by the CEO, shall assess every planned outsourcing arrangement or material amendment to an outsourcing arrangement before the respective outsourcing agreement is signed or a material amendment is made.

For their assessment, the Compliance Officer, or a person or group of persons qualified for the respective assessment, appointed by the CEO, shall use the Checklist Outsourcing Arrangement. He/she shall ensure that the outsourcing arrangement, including the service provider, sub-contractors, as applicable, and the outsourcing arrangement meet the stated criteria appropriately. In case of material outsourcing, the criteria shall be applied more stringently.

The board of directors or Senior Management shall approve every assessment of an outsourcing arrangement before the respective outsourcing agreement is signed.

Once the outsourcing agreement has been signed, the outsourcing arrangement shall be listed in the outsourcing register.

In case of outsourcing outside of Singapore, our Company shall confirm in writing to MAS that the outsourcing agreement includes rights of MAS to inspect the service provider and, as applicable, sub-contractors.

## Monitoring

The Compliance Officer, or a qualified person appointed by the CEO, shall monitor the outsourcing arrangement on an ongoing basis. The Compliance Officer, or appointed person shall hereby in particular monitor the service provider’s performance in meeting agreed service standards.

When the Compliance Officer, or appointed person notices a deterioration in the service provider’s performance, any substantial failure of processes or controls, or any breach of confidentiality or security, he/she shall notify Senior Management as soon as possible.

MAS is to be notified as soon as possible of any adverse development arising of an outsourcing arrangement that could impact our Company, including any event that could potentially lead to prolonged service failure or disruption in the outsourcing arrangement, or any breach of security and confidentiality of our customer information. Moreover, MAS must be notified, if any overseas authority seeks access to customer information.

# Review

## Inspection of the Service Provider

The Compliance Officer shall, or shall arrange to, conduct an inspection of the service provider and, to the extent involved, sub-contractors, their frameworks, processes and controls. Such inspection may be carried out by any independent person or entity, including internal audit of the service provider or the sub-contractor.

* Inspections of service providers and, as applicable, sub-contractors for material outsourcings shall be inspected every year.
* Inspections of service providers and, as applicable, sub-contractors for non-material outsourcings shall be inspected every two years.

In addition, the Compliance Officer shall obtain review reports on the service provider and, as applicable, sub-contractors as and when available keeping in view the nature and complexity of services being provided by the sub-contractors.

Where an inspection or other review recommends remediating action(s), the Compliance Officer shall monitor the timely implementation of such remediating action(s). In case another person is appointed for the monitoring of the respective outsourcing arrangement, the Compliance Officer may arrange with that person for the respective monitoring.

Copies of inspection and other audit/independent review reports shall be submitted to MAS.

Moreover, MAS is to be notified as soon as possible of any adverse development arising of an outsourcing arrangement that could impact our Company, including any event that could potentially lead to prolonged service failure or disruption in the outsourcing arrangement, or any breach of security and confidentiality of our customer information. In addition, MAS must be notified, when access for audit or inspection at the service provider or a sub-contractor has been restricted or denied.

## Internal Review of Outsourcing Arrangements

Every year, the Compliance Officer shall review the business relationships of our Company to identify and assess outsourcing arrangements.

* All material outsourcing arrangements shall be reviewed at least every year.
* Non-material outsourcing arrangements shall be reviewed at least every two years.

The Compliance Officer shall review and, to the extent applicable, amend the assessment in the Outsourcing Checklist Outsourcing Arrangements. The assessments, (a) if a substantive engagement with a third-party services provider qualifies as outsourcing and (b) if an outsourcing arrangement is material, shall be performed every year for every outsourcing arrangement. A full review shall be performed at the frequency indicated above.

The Compliance Officer shall submit tab “Internal Reporting” of the Outsourcing Checklist to Senior Management after every review, at least every year.

Senior Management shall review this report, assess the appropriateness of every outsourcing arrangement, determine mitigating action as well as a timeline for the mitigating action, as required, and deliberate on additional risks and on any changes in processes and controls to strengthen our Company’s operations and risk management.

The report, together with the recommendations by Senior Management shall be submitted to the board of directors for information and, as applicable, approval.

# Termination of Outsourcing Arrangements and Contingency Provisions

Throughout the entire period of every outsourcing arrangement, our Company shall ensure that the outsourcing arrangement can be terminated at any time and the respective activity continued in house or by another external service provider. Where the service provider is maintaining data/information that is required for the operation of our Company, our Company shall ensure that it regularly obtains and/or secures a copy of that data.

In the event of the termination of an outsourcing arrangement, Senior Management shall appoint a person that ensures a smooth transition of the activity to be performed in house or by a third party. A plan shall be established for the transition and the same shall be approved by Senior Management or by the board of directors in case of material outsourcing.