

# EBA Recommendations on Outsourcing to Cloud Service Providers

EBA, Supervisory Convergence Unit

20 June 2017 | Public hearing

# Outline

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# 1) Background

- Growing importance of cloud services as driver of innovation.
  - Increased interest in financial sector for use of cloud service solutions.
  - Compared to more traditional forms of outsourcing, cloud services provide a higher level of standardization which allows the services to be provided to a larger number of different customers, in a more automated manner and on a larger scale.
  - The use of cloud services can offer a number of advantages such as economies of scale, flexibility, business agility, operational efficiencies and cost-effectiveness.
  - There are also a number of challenges raised by the use of cloud services such as data and system security, governance and compliance challenges, and concentration risk.
  - General outsourcing guidelines in place since 2006.
- Call for more specific guidance on the use of cloud service solutions by credit institutions in addition to the existing general outsourcing guidelines.
  - Room for further convergence in supervisory practices across member states in the approach to cloud computing.

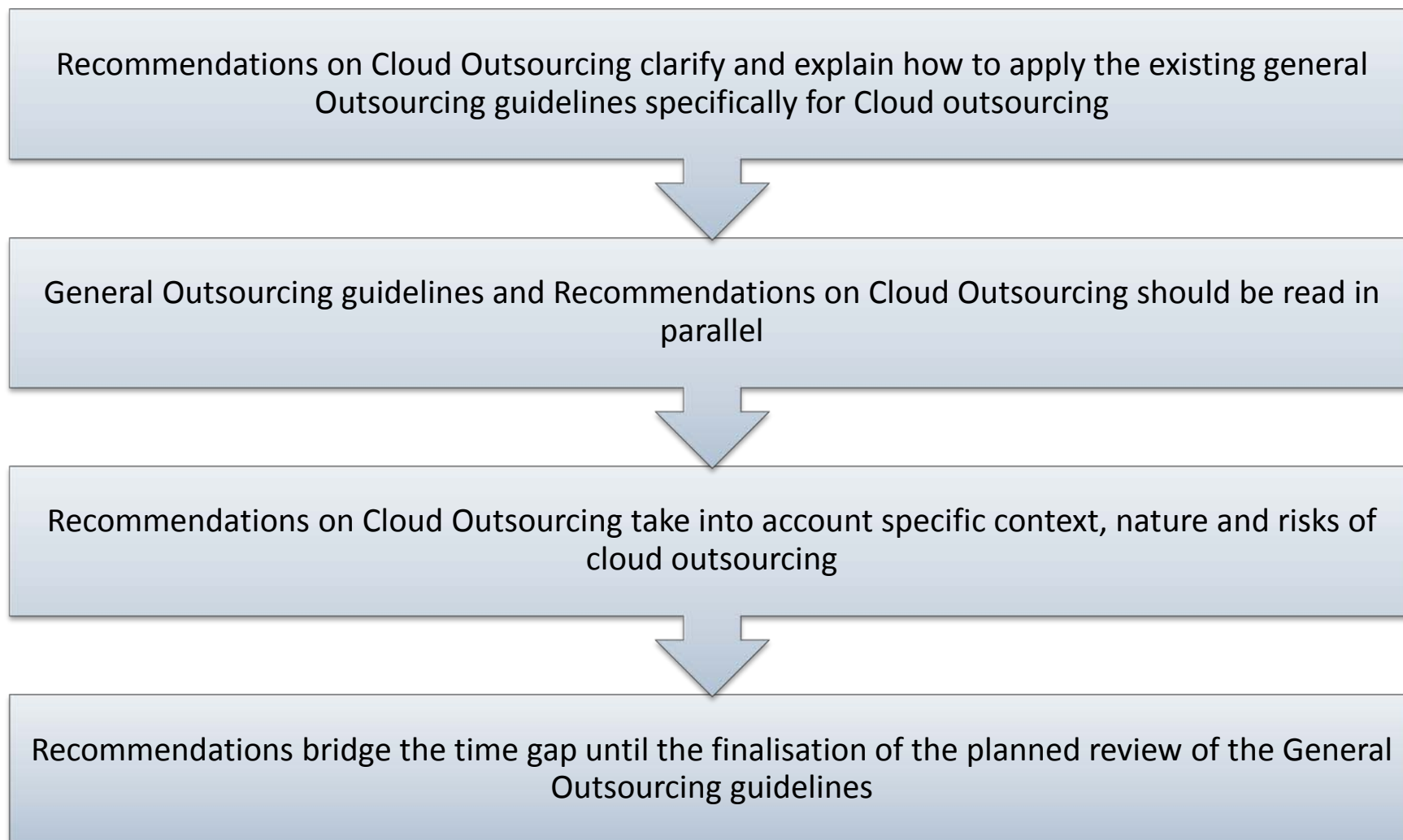
## 2) Objectives of the Recommendations

- Own-initiative by the EBA as part of the work on IT risk and IT risk supervision.
- Complement existing general outsourcing guidelines for the specific context of cloud outsourcing.
- Aim to promote common EU-wide guidance for the use of cloud services by institutions.
- Goal is to harmonise supervisory expectations across the EU for institutions adopting cloud computing.



Allow institutions to leverage the benefits of using cloud services, while ensuring that any related risks are adequately identified and managed.

### 3) Link with general Outsourcing Guidelines



## 4) Outline of the draft Recommendations

1. Materiality assessment
2. Duty to adequately inform supervisors
3. Access and audit rights
4. In particular for the right of access
5. Security of data and systems
6. Location of data and data processing
7. Chain outsourcing
8. Contingency plans and exit strategies

## 5) Key elements of the draft Recommendations – Materiality Assessment

### General Outsourcing

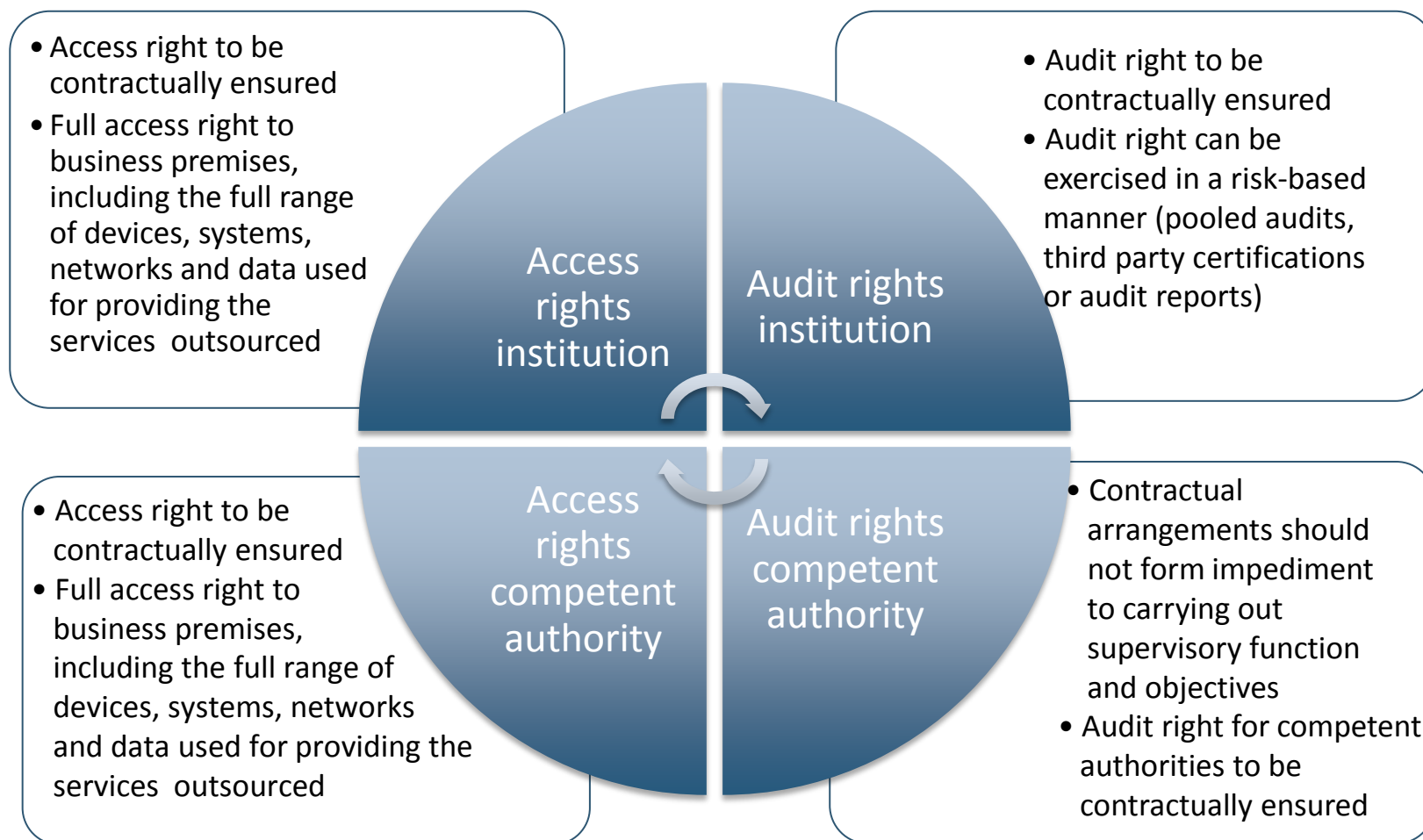
- Discontinuation of activities could have significant effect on the institution's ability to meet its **regulatory responsibilities** and/or to **continue** in business;
- Activities requiring a **licence** from the supervisory authority;
- Activities having a significant impact on institution's **risk management**; and
- The management of risks related to these activities.

### Cloud Outsourcing

- **Inherent risk profile/criticality** of activities to the business continuity/viability of the institution and its obligations to customers;
- Direct operational impact of **outages**, and related legal and reputational risks;
- Potential impact disruption of the activities on **revenue prospects**;
- Potential impact of a **confidentiality breach** or **failure of data integrity** on the institution and its customers.



## 5) Key elements of the draft Recommendations – Access and audit rights





## 5) Key elements of the draft Recommendations – Security of data and systems

### Prior to cloud outsourcing

- Identify and classify activities, processes and related data and systems as to sensitivity and required protection
- Risk-based selection of activities, processes and related data and systems considered for cloud outsourcing.
- Define appropriate level of protection of data confidentiality, continuity of activities, integrity and traceability of data and systems.
- Consider specific measures such as the use of encryption technologies and appropriate key management architecture.

### Written agreement

- Put in place a written agreement with the cloud service provider which includes obligations with regards to security and protection of data

### During cloud outsourcing

- Monitor the performance of activities and security measures, including incidents on an ongoing basis.

## 5) Key elements of the draft Recommendations – Chain outsourcing

- Outsourcing institution to take account of the risks associated with chain outsourcing.
  - Cloud service provider retains full responsibility and oversight of subcontracted services.
  - Outsourcing institution to review and monitor the performance of the overall service on an ongoing basis.
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- **Prior notification** of material changes in sub-contracting needs to be ensured contractually.
  - **Prior consent** to changes in sub-contracting by the outsourcing institution is not required, but the institution retains the right to terminate the contract if the planned changes in sub-contracting will have an adverse effect on the risk assessment of the agreed services.

## 5) Key elements of the draft Recommendations – Contingency plans and exit strategies

Outsourcing institution to have contingency plans and exit strategies in place to ensure business continuity and avoid lock in situations.

### Contingency plans

Arrangements to maintain the continuity of business if the provision of services by the cloud service providers fails or deteriorates to an unacceptable degree.

### Exit strategies

Termination and exit management strategy to allow for orderly transfer of data and activities from the cloud service provider in case of the termination of the outsourcing agreement.

## 6) Next steps

- Public consultation ends on **18 August 2017**
- The Recommendations will then be finalised following the standard procedure
- The final Recommendations are expected to be issued in H2 2017
- Envisaged application date would be mid-2018
  
- Questions?



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