



## **Q: What is the outsourcing life cycle?**

The process of outsourcing should be undertaken in accordance with a defined outsourcing 'life cycle' which would comprise a number of distinct stages (within each stage certain controls would be operated).

The EBA Guidelines on outsourcing<sup>1</sup> describe a number of lifecycle steps, as outlined below. These are logical common-sense steps and the EBA's Guidelines really just add some formality:

- **Planning process** – planning whether it is appropriate to outsource a particular business function and how the firm would control the outsourced function. The development of a service description and associated service levels would take place at this stage
- **Risk assessment** – assessing the risks associated with outsourcing a particular function and understanding how these risks would affect, and be controlled by, the firm. This would lead to approval in principle (e.g. from the Board) to outsource a particular function, provided that the associated risks are capable of control within the firms' risk appetite. Findings would feed into the risk management activities and outsourcing undertaken only within the firm's risk appetite
- **Tendering process** – obtaining quotes for the proposed outsourced function from different service providers
- **Due diligence** – performing due diligence on potential service providers, leading to a short-list of suppliers or an initial choice of supplier. A checklist approach would be a sensible way of organising these due diligence checks
- **Contractual negotiations** – contractual negotiations regarding service delivery, regulatory and commercial requirements with the short-listed potential suppliers. This will lead to a choice of preferred supplier who is able to meet the firm's contractual requirements
- **Approval** – approval of the relationship with the final proposed service provider. The Board should have final approval authority and execute the contractual agreement negotiated above
- **Implementation** – establishing the operational arrangements that will enable the outsourcing of the business function to the proposed service provider; and
- **Termination** – following conclusion of the outsourcing relationship the arrangements will need to be terminated, in accordance with contractual provisions, and an 'exit plan' initiated. Termination may take place if the service provider is not able to meet requirements (e.g. failure to meet service levels), if the firm wishes to bring the function in house, or if the outsourced function is no longer required. Termination and exit planning will also need to be considered as part of the firm's Wind Down Plan.

The Outsourcing Policy available on our website [www.pacnet.info](http://www.pacnet.info) has been drafted considering the EBA's outsourcing lifecycle.

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<sup>1</sup> Following the UK's exit from the EU the FCA continue to expect firms to apply the EBA Guidelines to the extent that they remain relevant .