



BANK OF PAPUA NEW GUINEA

SUPERANNUATION PRUDENTIAL STANDARD (SPS 9/2019): OUTSOURCING

Issued under Section 43 of the *Superannuation (General Provisions) Act 2000*

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OVERVIEW¹

This prudential standard (“Standard”) requires Authorised Superannuation Funds (ASFs) regulated by the Central Bank of Papua New Guinea (the Bank) that all outsourcing arrangements involving material business activities entered into by an ASF be subject to appropriate due diligence, approval and ongoing monitoring. The Board of Trustee (the Board) of the ASF must ensure it is able to meet its obligations to its members, by ensuring that all risks arising from outsourcing material business activities must be appropriately managed. The ultimate responsibility for the outsourcing policy of an ASF rests with its Board.

¹ The Bank acknowledges material sourced from the Australian Prudential Regulation Authority (APRA) Prudential Standard SPS 231 on Outsourcing.

PART I: PRELIMINARY**1. Short Title**

SPS 9/2019 Outsourcing

2. Authorization

The Bank, acting under Section 43 of the *Superannuation (General Provisions) Act 2000* (“the Act”) and all other powers enabling it, determines this Standard.

3. Application

- a) This Standard applies to all Licence Holders licensed under the Act unless the context indicates otherwise.
- b) Where provisions of the Standard apply specifically to a Licensed Fund Administrator and Licensed Investment Manager, these Licence Holders shall be referred to collectively as ‘*Licensed Service Providers*’.
- c) This Standard applies to all Officers as defined under Section 3 of the Act unless the context indicates otherwise, the term director, chief executive or a manager is specifically used.

4. Definitions

In this Standard, unless the contrary intention appears, terms that are defined in the Act, have the same meaning when appearing in this Standard. The following definitions also apply.

- i. ASF means an Authorised Superannuation Fund.
- ii. Licence Holder means a licensed trustee, licensed investment manager and licensed fund administrator licensed by the Bank under the *Superannuation (General Provisions) Act 2000*.
- iii. Fund Administrator means an entity providing administration services or purporting to provide administration services to a Superannuation fund.
- iv. Investment Manager means an entity providing or purporting to provide investment services to a superannuation fund
- v. A group comprises the licensed holder and all connected entities and related corporate bodies to the licensed service provider.
- vi. A material business activity is one that, if disrupted, has the potential to have significant impact on the licence holder’s operations, its ability to effectively manage

risks, its interests, or expectations of members or the financial position of the licence holder having regard to such factors as:

1. a financial, operational or reputational failure of the service provider to perform over a given period of time;
 2. the cost of the outsourcing arrangement as a share of total costs;
 3. the degree of difficulty, including the time taken in finding an alternative service provider or bringing the business activity in-house;
 4. the ability of the ASF to meet regulatory requirements if there are problems with the service provider;
 5. potential losses to members and other affected parties in the event of a service provider failure; and
 6. affiliation or other relationship between the ASF and the service provider.
- vii. For the purpose of this Standard, the investment management, fund administration, external audit, custodial arrangement and the internal audit function are all material business activities.
- viii. Outsourcing refers to a License Holder entering into an arrangement with any other party to perform, on a continuing basis, a business activity (other than fund administration or investment management) that currently is, or could be, undertaken by the Licence Holder itself.
- ix. Offshoring means the outsourcing of a material business activity by a Licence Holder to a service provider where the outsourced activity is to be conducted outside of Papua New Guinea (PNG). Offshoring includes arrangements where the service provider is incorporated in PNG, but the physical location of the outsourced activity is outside PNG.
- x. Where provisions of this Standard apply specifically to a Licensed Fund Administrator and Licensed Investment Manager, these Licensed Holders shall be referred to collectively as "*Licensed Service Provider*."
- xi. Service Provider generally refers to a business or organization that supplies or offers service to others in exchange for commission or payment for the services it provides.
- xii. Custodian means a person that provides services generally called custody services to licensed trustees, licensed investment managers or Licensed Fund Administrators.

PART II: STATEMENT OF POLICY**5. Purpose**

- a) This Standard requires that all outsourcing arrangements involving material business activities entered into by an ASF be subject to appropriate due diligence, approval and ongoing monitoring.
- b) All risks arising from outsourced material business activities must be appropriately managed to ensure that the Board of the ASF is able to meet its obligations to its members.
- c) The ultimate responsibility for the Outsourcing Policy of a Licensed Holder rests with its Board.

6. Scope

This Standard applies to all Licence Holders under the Act.

7. Responsibility

It is the responsibility of the Board of Licence Holders to comply with this Standard.

PART III: PRINCIPLES AND PRUDENTIAL REQUIREMENTS**8. Outsourcing Policy**

- a) The Board of a Licence Holder must develop, document and maintain an Outsourcing Policy consistent with this Standard and the Act.
- b) In developing the Outsourcing Policy, the Board must take into account the size, complexity and risk profile of the business.
- c) The Board must approve the Licence Holder's Outsourcing Policy, which must set out its approach to outsourcing of material business activities, including a detailed framework for managing all such outsourcing arrangements.
- d) An approved copy of the Outsourcing Policy must be submitted to the Bank.

9. Licence Holders which are part of a group

Where a Licence Holder is part of a corporate group, and the Licence Holder utilises the Outsourcing Policy of the group, the Board must approve the use of the Outsourcing Policy of the group and must ensure that the Outsourcing Policy of the group gives appropriate regard to the Licence Holder's operations and its specific requirements.

10. Conflict of Interest

- a) The Licence Holder's Outsourcing Policy must set out its approach to conflicts that may arise through outsourcing, including how all risks arising from such a conflict will be identified, monitored, managed and mitigated and be consistent with the Trustee Board's Conflicts of Interest Policy.
- b) The Licence Holder's Outsourcing Policy must set out specific requirements in relation to outsourcing to service providers conducting any material business activity outside of PNG.

11. Materiality of Business

- a) This Standard only applies to the outsourcing of a material business activity as defined in the Standard.
- b) For the purposes of this Standard, investment management, fund administration, external audit, custodian arrangements and the internal audit functions are all material business activities.

12. The Role of the Board

- a) The Board must have a process in place to identify, assess, manage, mitigate and report on risks associated with outsourcing to meet its obligations to members of the ASF.
- b) The Board is ultimately responsible for any outsourcing of a material business activity. Although outsourcing may result in the service provider having day-to-day managerial responsibility for a business activity, the Board is responsible for complying with all prudential requirements and all other non-delegable legal obligations that relate to the outsourced business activity.

13. Outsourcing Risks and Controls

The Board must ensure that the outsourcing risks and controls are taken into account as part of its overall Risk Management Framework (RMF) and when completing the risk management declaration which the Board is required to provide to the Bank.

14. Assessment of Outsourcing Options

A Licence Holder must be able to demonstrate that, in assessing the options for outsourcing a material business activity and entering into an outsourcing agreement, it has:

- a) Prepared a business case for outsourcing the material business activity;

- b) Undertaken a tender or other selection process for selecting the service provider;
- c) Undertaken a due diligence review of the chosen service provider, including the ability of the service provider to conduct the business activity on an ongoing basis;
- d) Ensured that the chosen service provider is in compliant with the Act and other relevant legislations such as the (1.) AML and CTF Act 2015(, 2) Income Tax Act 1959 As Amended (, 3) must have a Tax identification number (TIN) and is seem to be meeting its tax obligations, (4) Must be seen to be remitting its employees' superannuation contributions to a nominated ASF, (5) Must have its financial statements audited, (6) Must have a Consumer Protection Policy and its Directors are not declared bankrupt and must be of good standing in the society.
- e) Taken into account the changes to the risk profile of the business activity that arise from outsourcing the activity and how this changed risk profile is addressed within the Licence Holder's RMF;
- f) Involved the Board, a Board committee or senior manager with delegated authority from the Board, in approving the agreement;
- g) Considered all the matters outlined at section 15 of this Standard that must, at a minimum, be included in the outsourcing agreement;
- h) Established procedures for monitoring performance evaluation and important assessment under the outsourcing agreement on a continuing basis;
- i) Addressed the renewal process for outsourcing agreements and how the renewal will be conducted;
- j) Developed contingency plans that would enable the outsourced business activity to be provided by an alternative service provider or brought in-house if required;
- k) Determined that its conduct in relation to the outsourcing agreement is in the best interests of members of the ASF; and
- l) Notified the Bank immediately of any exit strategy plan should it terminate the outsourcing arrangement with its service provider.

15. The Outsourcing Agreement

- a) Each outsourcing arrangement must be contained in a documented legally-binding agreement.
- b) The agreement must be signed by all parties before the outsourcing arrangement commences.
- c) At a minimum, the agreement must address the following matters:
 - i) The scope of the arrangement and services to be supplied;

- ii) Commencement and end dates;
- iii) Review provisions;
- iv) Pricing and fee structure;
- v) Service levels and performance requirements;
- vi) The form in which the data is to be kept and clear provisions identifying ownership and control of the data, including clear recognition that all data remains at all times that the property of the ASF, and on termination of the outsourcing arrangement that the data will be transferred to the ASF of the new provider in suitable manner;
- vii) Reporting requirements, including content and frequency of reporting;
- viii) Audit and monitoring procedures, evaluation and important assessment provisions;
- ix) Business continuity management;
- x) Confidentiality, privacy and security of information;
- xi) Default arrangements and termination provisions;
- xii) Dispute resolution arrangements;
- xiii) Liability and indemnity;
- xiv) Sub-contracting;
- xv) Insurance; and
- xvi) To the extent applicable, offshoring arrangements (including through sub-contracting).

16. Sub-Contracting

A Licence Holder that outsources a material business activity must ensure that its outsourcing agreement includes an indemnity to the effect that any sub-contracting by a service provider of the outsourced function will be the responsibility of the service provider, including liability for any failure on the part of the sub-contractor.

17. Unexpected Event or Failure of a Service Provider

Where a Licence Holder invokes its Business Continuity Plan as a result of an unexpected event or there is a sudden financial or operational failure of an existing service provider, and as a result, enters into a new outsourcing agreement, the Licence Holder must notify the Bank in accordance with Section 36 (1) of the Act.

18. Review of the Outsourcing Policy

- a) The Board must ensure that the appropriateness, effectiveness and adequacy of its Outsourcing Policy are subject to review on a regular basis and includes the triggers that might cause a more frequent review and as circumstances change a comprehensive review is conducted at least every three years.
- b) The scope of the comprehensive review of the Outsourcing Policy must have regard to the size and complexity of the operations, the extent of any change to those operations or its risk appetite and any changes to the external environment in which the ASF operates.

19. Access to Service Providers

All outsourcing agreements must include a clause that allows the Bank access to documentation and information related to the outsourcing arrangement including the right for the Bank to conduct on-site visits to the service provider if the Bank considers the services provided are material.

20. Notification Requirement on Entering into a New Agreement

- a) A Licence Holder must notify the Bank as soon as possible after entering into an outsourcing agreement, and in any event no later than ten business days after execution of the outsourcing agreement.
- b) When a Licence Holder notifies the Bank of a new outsourcing agreement, it must also provide a summary to the Bank of the key risks involved in the outsourcing arrangement and the risk mitigation strategies put in place to address these risks.
- c) This notification requirement applies to all outsourcing of material business activities.

21. Offshoring – Requirement for Approval

- a) A Licence Holder must consult with the Bank prior to entering into any offshoring agreement involving a material business activity so that the Bank may satisfy itself that the impact of the offshoring arrangement has been adequately addressed as part of the license holder's RMF and that the offshoring arrangement is in the best interests of the members.
- b) No offshoring arrangement for any material business activity may be entered into without the prior written approval of the Bank. Any offshoring arrangement involving material business activity must be in line with the requirements at Paragraph 15 of this Standard.

22. Significant Problems with Service Providers

A Licence Holder must advise the Bank of any significant problems that have the consequence to, materially affect the Licence Holder's business operations, the interests of members, or materially affect the Licensed Holder or connected entities of the Licence Holder which have the potential to materially affect the outsourcing arrangement.

23. Managing and Monitoring the Relationship

- a) A Licence Holder must ensure it has sufficient and appropriate resources to manage and monitor each outsourcing relationship at all times.
- b) The type and extent of resources required will depend on the materiality of the outsourced business activity.
- c) At a minimum, monitoring must include:
 - i) Maintaining appropriate levels of regular contact with the service provider; and
 - ii) A process for regular monitoring of performance under the agreement, including meeting criteria concerning service level agreement (SLA).

24. Notification Requirement on Terminating an Agreement

Where an outsourcing agreement is terminated, the Licence Holder must notify the Bank as soon as practicable and provide a statement about the transition arrangements and future strategies for carrying out the outsourced material business activity.

25. Internal Audit Arrangements

A Licence Holder's internal audit function must review any proposed outsourcing of a material business activity and regularly review and report to the Board or the Board Audit Committee on compliance with the Licence Holder's Outsourcing Policy.

26. External Audit Arrangements

- a) The Bank may request the external auditor of the Licence Holder, or an appropriate external expert, to provide an assessment of the risk management processes in place with respect to an arrangement to outsource a material business activity.
- b) This could cover areas such as information technology systems, data security, internal control frameworks and business continuity plans.
- c) Such reports will be paid for by the Licence Holder and must be made available to the Bank on request.

PART IV: CORRECTIVE MEASURES**27. Remedial Measures and Sanction**

- a) A Licence Holder which experiences difficulty in complying with sections of this Standard should advise the Bank forthwith in writing where it considers special circumstances exist where it will not be able to fully comply by no later than 31 December 2020.
- b) If a Licence Holder fails to comply with this Standard, the Bank may impose or vary conditions on the licence to ensure compliance or, if necessary, suspend or revoke the licence.

PART V: EFFECTIVE DATE**28. Effective Date**

The effective date of this Standard shall be 31 December 2019 with full compliance required by 31 December 2020.

29. Questions and Enquiries

Questions and enquiries relating to this Standard should be addressed to:

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