



OCC ADVISORY LETTER

Comptroller of the Currency
Administrator of National Banks

Subject: Risk Management of Outsourcing
Technology Services

TO: Chief Executive Officers of National Banks, Federal Branches and Data-Processing Centers, Department and Division Heads, and Examining Personnel

The Federal Financial Institutions Examination Council (FFIEC) has released the attached guidance, "Risk Management of Outsourced Technology Services." The guidance outlines the processes banks should use to manage the risks associated with outsourcing technology services and discusses four key elements of such processes—risk assessment, selection of service providers, contract reviews, and monitoring the service provider relationship. This guidance supplements previous interagency statements and Office of the Comptroller of the Currency (OCC) guidance.

The guidance states that a financial institution's board of directors and management are responsible for ensuring that adequate risk mitigation practices are in place for effective oversight and management of outsourcing relationships. Financial institutions should incorporate an outsourcing risk management process that includes a risk assessment to identify the institution's needs and requirements; proper due diligence to identify and select a provider; written contracts that clearly outline duties, obligations, and responsibilities of the parties involved; and ongoing oversight of outsourced technology services.

The guidance encourages management to consider additional risk-management controls when services involve the use of the Internet. The Internet, with its broad geographic reach, ease of access and anonymity, requires extra attention to maintaining secure systems, detecting intrusions, developing reporting systems, and verifying and authenticating customers.

Institutions considering operating subsidiaries and minority investments in conjunction with outsourcing arrangements should refer to OCC regulations 12 CFR 5.34 and 5.36 regarding the permissibility of the activities to be conducted. In addition, management should consider whether the appropriate duties, responsibilities, and performance criteria are understood during the due diligence and contract negotiations. The institutions' risk assessment phase and contract provisions should take into consideration investment criteria and exit strategies that may be needed depending on the success and continued permissibility of the activities.

OCC encourages national banks to use technology in a safe and sound manner to enhance service and product offerings. Regardless of whether technology solutions are managed internally or

outsourced, the board of directors and management need to understand the inherent risks to the institution and implement appropriate controls.

For further information on Internet banking and technology risk management guidance, see the OCC's Internet site at www.occ.treas.gov or contact Clifford Wilke, director, Bank Technology, at (202) 874-5920.

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Attachment