

Western Union Payment Services Ireland Limited (“WUPSIL”)

Response to Central Bank of Ireland (“CBI”) discussion paper:

**“Outsourcing – Findings and Issues for Discussion” published November
2018**

Introduction

As CBI will be aware, Western Union Payment Services Ireland Limited (“WUPSIL”) is the regulated entity for the core consumer to consumer money transfer service offered by the Western Union Group across the EU/EEA and is supervised by the CBI. WUPSIL welcomes CBI’s publication of its “Outsourcing - Findings and Issues for Discussion” paper in November 2018 (the “Paper”) and the opportunity to contribute to this discussion.

WUPSIL management has noted and brought to the attention of its Board the CBI’s findings and concerns regarding outsourcing management and oversight, which it treats seriously. WUPSIL has taken significant steps to enhance its existing outsourcing management and oversight arrangements and its risk and outsourcing oversight team have incorporated the key questions to be considered and actioned (as set out in Part B (i) of the Paper. WUPSIL is also closely following the process initiated by the European Banking Authority (“EBA”) that we understand will lead to the publication of EBA Outsourcing Guidelines in early 2019. We have already incorporated the major aspects of the proposed guidance into our Outsourcing Policy.

Responses to questions for discussion with CBI

Our responses to the individual questions posed by CBI are set out below, together with the relevant questions for ease of reference.

Further to CBI’s invitation in the Paper for general observations, we set out in the Appendix some general observations raised by WUPSIL during the EBA’s Outsourcing Consultation in 2018. We would welcome CBI’s views in respect of these matters.

Sensitive Data Risk

- *How are regulated firms ensuring that they have sufficient knowledge/ expertise within their own organisation to effectively challenge and gain assurance that their data is being managed securely by Outsource Service Providers (OSPs), including Cloud Service Providers (CSPs) (how and where it is being stored, processed, used, located etc.)?*

To ensure that that we have sufficient knowledge to effectively challenge and gain assurance that data being managed by OSPs (including CSPs) is securely managed, we rely on our Supplier Risk Assessment Process, which consists of three sub-processes:

1. Our pre-contract due diligence process ensures that before a service provider is appointed, due diligence is carried out to determine the vendor’s capability, reliability, track record and financial position.
2. Our contract language process ensures that, prior to being given access, all service providers who have access to, store or host Western Union information resources have an approved contract executed in accordance with our sourcing and procurement policy. All service provider contracts include language for security, data privacy and compliance and include language addressing: security, privacy and compliance obligations relevant to the services received, including to the extent applicable, representations and warranties addressing the service providers cybersecurity policies and procedures, including for access controls and encryption in transit and at rest; and minimum security standards for the protection of information resources.

3. Our supplier risk assessment process ensures that supplier risk assessments are conducted periodically to measure supplier risk. The frequency of assessment depends on the risk profile of the vendor.

WUPSIL identifies the requisite technical expertise in order to effectively challenge the way in which our data is being managed and to obtain the necessary level of assurance over OSP procedures through the engagement of its dedicated compliance, legal, privacy, technology and information security personnel during the above-mentioned supplier due diligence and risk assessment processes and generally, procuring additional technical expertise from the wider Western Union Group and our external consultants and service providers as required.

It is further worth noting that WUPSIL and the Western Union Group have implemented a data classification protocol supported by a data management control framework, designed to monitor the management of sensitive data. These processes were enhanced under our group-wide GDPR preparatory program.

- *What issues / challenges are regulated firms encountering in gaining assurance that their sensitive business and customer data is being managed securely in outsourcing scenarios?*

Navigating through multiple layers of service providers can impede the efficiency and effectiveness of establishing the regulatory requirements to satisfy our assurance needs relating to sensitive business and customer data. Ongoing monitoring and coaching of service providers is required to ensure that appropriate assurance is obtained and that we meet regulatory requirements.

Concentration risk

- *How are regulated firms seeking to reduce their exposure to concentration risk both from the perspective of providers and geographical locations?*

WUPSIL's exposure to concentration risk is reduced by availing of multiple intragroup service providers established in different geographical locations. An example of this are our group regional operating centres, which support our operational activities. The regional operating centres have the capability to support each other or to act as substitute service providers, should this be required.

Geographically, the main operating service centres relied on by WUPSIL are split between a European based operating centre and a Latin American operating centre. This diversifies concentration risk from the perspective of service providers and geographical locations.

- *How are regulated firms addressing concentration risk whereby they are outsourcing to OSPs who provide services for a large proportion of their sector? Of particular interest is how regulated firms are dealing with concentration risk where there are limited numbers of providers of niche services such as CSPs?*

Intragroup arrangements comprise the majority of WUPSIL's outsourcing arrangement and therefore do not generally give rise to concentration risk relating to operational capability or from concentration risks as relating to niche service providers who might support the wider payments industry. As regards our external third-party service providers, our pre-contractual procurement processes include due diligence on the proposed supplier and specific market analysis, including due consideration of concentration risks. Those processes ensure that concentration risks are identified before a service provider is engaged and if significant, such risks are managed case by case.

Offshoring and Chain Outsourcing

- *Given the significant volume of offshoring to the UK what preparations are regulated firms undertaking to prepare for Brexit and what related challenges are envisaged in terms of their outsourcing arrangements?*

WUPSIL has separately communicated to CBI details of its Brexit contingency planning. WUPSIL has no current offshoring arrangements to the UK. This is being reassessed as part of our overall Brexit strategy but we anticipate that any offshoring to the UK would be minimal and that for the most part, our outsourcing arrangements will remain unchanged, save where necessary to reflect outsourcing services that may be performed between our post-Brexit UK operations and WUPSIL.

- *What steps are regulated firms taking to ensure they have full sight of any chain outsourcing which may be occurring within their outsourcing arrangements and how are they managing risks associated with this?*

WUPSIL ensures appropriate oversight of chain outsourcing activities as follows:

- WUPSIL's outsourcing policy, procedure and guidelines apply to outsourcing, including any chain outsourcing.
- WUPSIL's service providers are contractually bound to (i) require WUPSIL approval before engaging sub-service providers in chain outsourcing and (ii) impose on such sub-service providers substantially the same contractual rights and obligations that WUPSIL has imposed on the service provider, including service levels obligations, oversight and inspection rights.
- WUPSIL has established a detailed and comprehensive register of outsourced activities, including chain outsourcing, which is regularly updated.
- Outsourcing procedures mandate service owners to obtain management information in order to ensure that they have sufficient visibility of how the service is provided in accordance with service level agreements and that appropriate corrective action is taken where necessary.
- The outsourcing oversight regime provides assurance that outsourcing policy and procedures are adhered to through second line testing and monitoring.

The risks associated with chain outsourcing are managed pursuant to the proportionality principle recognised by the proposed EBA Guidelines, by virtue of which WUPSIL aims to ensure that its governance arrangements relating to outsourcing are consistent with the nature, scale and complexity of its activities, so that objectives of the regulatory requirements are effectively achieved.

Accordingly, in managing the risks associated with chain outsourcing, resources and efforts are focused primarily on the major areas of risk, at the different levels of the outsourcing chain. In minor areas of risk, WUPSIL may choose to reduce the extent of oversight and place a certain degree of reliance on risk management by service providers and sub-service providers under the terms of the outsourcing agreements.

Similar management and oversight risks arise when dealing with third party providers or providers in a particularly long outsourcing chain, compared with intragroup providers or those closer in a chain, who may be easier to manage and oversee. WUPSIL endeavours to manage all such risks effectively.

Substitutability

- *What issues/ challenges are regulated firms encountering when assessing substitutability and exit strategies? How are these being addressed?*

Complex intragroup outsourcing arrangements, which in turn leverage complex internal processes and technologies, increase the challenge of identifying suitable external service providers. Additionally, the level of integration of intra-group entities such as WUPSIL with their intragroup outsourcing service provider counterparts necessitates significant planning, resources, testing and lead time when substituting service providers.

To mitigate this risk and the risk of interruption to key services, WUPSIL ensures that valid alternative providers exist where possible within the WU group. For example, WUPSIL operations supported by our European operating centre can be transferred to our Latin American operating centre. This enables WUPSIL to transfer outsourced operational activities from one WU regional operating centre to another in the event of the failure or discontinuance of a current service provider. Additionally, all outsourcing service providers are required to have documented and tested business continuity plans, which are subject to annual review depending on the criticality of the service to our operations.

Conclusion

We hope that the information we have provided is of assistance to CBI in its ongoing review of this area and we look forward to receiving any feedback CBI wishes to provide. We also remain available to address any queries CBI may have in writing or in person.

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APPENDIX

WUPSIL welcomes the opportunity to provide some general comments on the current and proposed future regulation of outsourcing within the financial services industry; and would welcome CBI's views and guidance in respect of the following issues WUPSIL has raised at the European level, in particular arising from its contribution to the EBA's Draft Consultation Paper on Guidelines on Outsourcing dated 22 June 2018 (the "EBA Consultation Paper").

Definition of outsourcing

The term 'outsourcing' is defined in the EBA Consultation Paper "... an arrangement of any form between an institution, a payment institution or an electronic money institution and a service provider by which that service provider performs a process, a service or an activity, or parts thereof that would otherwise be undertaken by the institution, the payment institutions or the electronic money institution itself.". We would be obliged if CBI could elaborate on its interpretation of the phrase "*would otherwise be undertaken*". It appears to suggest any arrangement that could be deemed to form a necessary component of the core licensed activity or service being provided (in our case, money remittance). However, there are many activities related to its core licensed activity that a payment institution could but does not perform for operational and cost reasons (eg credit or data checks, sponsor bank services, payment processing or settlement operational services). We believe this would be unduly onerous and do not believe that this is the outcome intended by the EBA. Rather, we believe that a reasonableness test should be incorporated to the definition of outsourcing. Does CBI share this perspective, and can it offer any interpretative guidance regarding this language?

Outsourcing all or parts of a service

Para. 25 of the EBA Consultation Paper provides that payment institutions should ensure that payment services that require authorisation or registration by a competent authority in the Member State where they are authorised are only outsourced to a service provider located in the same Member State or in another Member State and which is licensed or otherwise allowed to perform such payment services. However, WUPSIL will not be outsourcing a payment service in its entirety but parts thereof. We would like to seek CBI's guidance whether this provision would only apply to a payment service that is fully outsourced, which would appear to be overly restrictive and we believe not to be the outcome intended by the EBA. Alternatively, if it applies to the outsourcing of "parts" of regulated services, we would ask the CBI to specify which parts of the payment service would be deemed to be subject to this provision. We also ask CBI to confirm whether EU payment institutions may engage service providers to offer regulated services through a system of chain outsourcing that includes non-regulated entities.

Register of outsourced activities

WUPSIL believes that the information that, under para. 47 of the EBA Consultation Paper, should be included in the register, is too detailed. In the case of complex chain outsourcing to third parties, it would be very difficult and a burdensome requirement to include details of all sub-service providers down the chain and to manage changes thereto. WUPSIL endorses the inclusion of a materiality threshold in this regard (e.g. critical or important functions, critical or important sub-outsourcing). The focus should not be on "who" performs the outsourced service but "how" it is performed, as long as the underlying contractual oversight arrangements provide adequate quality assurance.

Location where a critical or important function will be provided or where data will be kept

Para. 63e of the EBA Consultation Paper requires payment institutions to include in their outsourcing agreements the location where the critical or important functions will be provided or where relevant data will be kept. Such a requirement will likely create additional time and financial investments, as locations can change, management of the modification would be burdensome and may not be necessary as long as the service provider agrees to comply with all applicable laws.

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