



Effective date: 21 August 2019

**NOTICE FOR INSURANCE COMPANIES AND TAKAFUL OPERATORS
NOTICE NO. TIU/N-1/2019/11**

NOTICE ON APPLICATION FOR APPROVAL OF OUTSOURCING ARRANGEMENT



1. INTRODUCTION

- 1.1. This Notice is issued pursuant to Section 88 of the Insurance Order, 2006 and section 90 of the Takaful Order, 2008 (“the Orders”) to require insurance companies and takaful operators to obtain approval from the Brunei Darussalam Central Bank otherwise referred to in this Notice as Authority, of their material outsourcing arrangements and for matters related thereto. This Notice must be read with the guidance found in “Guidelines on Outsourcing Arrangements for Insurance Companies and Takaful Operators” [Guideline No. TIU/G-1/2019/10] [hereinafter referred to as “Guideline No: TIU/G-1/2019/10”].
- 1.2. This Notice shall be read in conjunction with the following:
 - 1.2.1. Notice on Corporate Governance for Insurance Companies and Takaful Operators [Notice No. TIU/N-3/2017/7];
 - 1.2.2. Guidelines on Risk Management and Internal Controls for Insurance Companies and Takaful Operators [Guideline No. TIU/G-3/2018/8]; and
 - 1.2.3. Any other notices, directives or guidelines, which the Authority may issue from time to time.
- 1.3. This Notice shall take immediate effect.

2. DEFINITIONS

- 2.1. For the purpose of these Guidelines:
 - 2.1.1. “Board” means the Board of Directors of the company;
 - 2.1.2. “Group” refers to the insurer’s Head Office or parent insurer, subsidiaries, affiliates, and any entity (including their subsidiaries, affiliates and special purpose entities) that the insurer exerts control over or that exerts control over the insurer;
 - 2.1.3. “Insurer” means a registered insurance company under Insurance Order, 2006 and a registered takaful operator under Takaful Order, 2008, unless it is otherwise specified;
 - 2.1.4. “Material outsourcing” means an outsourcing arrangement which, if disrupted, has the potential to significantly impact an insurer’s business operations, reputation and profitability;
 - 2.1.5. “Outsourcing” means an arrangement where an insurer engages a third party (the service provider) to provide the insurer with a service that may already or may conceivably be performed by the insurer itself which includes the following characteristics:
 - a) The insurer is dependent on the service on an ongoing basis but excludes services that involve the provision of a finished product;



- b) The service is integral to the provision of a financial service by the insurer and/or the service is provided to the market by the service provider in the name of the insurer; and
- c) It is prohibitive to change the service provider as substitutes are lacking in the market or may only be replaced at significant cost to the insurer.

2.1.6. "Service provider" means any party which provides a service to the insurer, including a member of the group to which the insurer belongs, e.g. its Head Office, parent insurer, another branch or related company, whether it is located in Brunei Darussalam or elsewhere.

3. APPROVAL FOR OUTSOURCING ARRANGEMENTS

- 3.1 An insurer must obtain the Authority's written approval before
 - a) entering into a new material outsourcing arrangement; or
 - b) making a significant modification to an existing material outsourcing arrangement.
- 3.2 An application for approval pursuant to paragraph 3.1 shall comprise, at a minimum, of the following information: –
 - a) name and registered address of the service provider, and, sub-contractors (where applicable);
 - b) commencement, expiry and renewal (if applicable) dates of the outsourcing arrangement;
 - c) brief description of the proposed outsourced activity;
 - d) locations of where the outsourced activity is undertaken, where information is processed or stored, and, primary and back-up locations;
 - e) where the arrangement involves the use of cloud service providers, the cloud services, deployment model, nature of data to be held and locations (e.g. city and country) where such data is stored, including back-up locations;
 - f) outcomes of the insurer's due diligence process;
 - g) total costs of the outsourcing arrangement (including upfront and ongoing expenses);
 - h) overall impact of the outsourcing arrangement on employment and talent capacity within the insurer; and
 - i) evidence of the approval granted by the relevant approval authority, where applicable.
- 3.3. Notwithstanding paragraph 3.2, an insurer is not required to obtain the Authority's prior written approval:
 - a) Where the outsourced activity is to be performed by a member of the group supervised by the Authority; or
 - b) Where the outsourced activity is to be performed by a member of the group which is not supervised by the Authority, the Authority determines that the management of outsourcing risk by the insurer is effective and having regard to the following:



- (i) the member of the group is subject to the supervision of a financial regulatory authority; and
- (ii) effective home-host supervisory cooperation arrangements between the Authority and the relevant financial regulatory authorities are in place.

In the event that the Authority is of the view that an arrangement is considered material, the insurer shall comply with Paragraph 3.1.

4. SUBMISSION OF OUTSOURCING REGISTER

- 4.1 An insurer shall submit an outsourcing plan approved by its Board to the Authority no later than 3 months after the end of the financial year, detailing the following:
 - a) All planned outsourcing arrangements, both new and renewal of existing arrangements, for the following financial year;
 - b) For each planned outsourcing arrangement:
 - (i) a brief description of the outsourced activity;
 - (ii) identification of material arrangements and main factors supporting the materiality of the assessment; and
 - (iii) locations of where the outsourced service is undertaken, where information is processed or stored, and back-up locations; and
 - c) A description of the overall impact of the existing and planned outsourcing arrangements on employment and talent capacity within the insurer, including any measures by the insurer to manage the potential displacement of staff as a consequence of outsourcing arrangements, including up-skilling of staff.
- 4.2 For the avoidance of doubt, the yearly submission of the outsourcing plan does not constitute an approval by the Authority under paragraph 3.1.

5. TRANSITIONAL PROVISIONS

- 5.1 For the purpose of Paragraph 4.7.2 in the Guidelines No. TIU/G-1/2019/10, an insurer must ensure that a complete register of all outsourcing arrangements is in place no later than 6 months after the issuance of this Notice.
- 5.2 The insurer must perform a gap analysis of all existing outsourcing arrangements against the requirements in the Guidelines No. TIU/G-1/2019/10. The insurer must develop an action plan to address the gaps identified, including a timeline with key milestones. The gap analysis and action plan must be submitted to the Authority no later than 31st December 2019.



- 5.3. Unless otherwise approved by the Authority, the insurer must submit an outsourcing plan for 2020 to the Authority by 31 March 2020.
- 5.4. The Authority may conduct onsite inspections on any insurers including its service providers, should it deem necessary to ascertain compliance with the provisions of this Notice.

**MANAGING DIRECTOR
BRUNEI DARUSSALAM CENTRAL BANK**

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