



PO Box 35
Shortland Street
Auckland 1140, New Zealand
Telephone (09) 306 3000
Freephone 0800 803 804
CX10087 Auckland DX Sort
asb.co.nz

12 August 2016

Victoria Learmonth
Prudential Supervision Department
PO Box 2498
Wellington 6140

Dear Victoria,

ASB Bank Limited (ASB) welcomes the opportunity to provide feedback on the *RBNZ Outsourcing Consultation Paper: Revised policy proposals for the review of the outsourcing policy for registered banks*.

This individual submission seeks to answer the outstanding questions that were not addressed in the joint bank submission from ANZ, ASB, BNZ and Westpac, largely due to commercial sensitivity or the individual nature of the particular question posed. Note that we fully endorse all aspects of the joint bank submission and have omitted the questions addressed therein from our individual submission to save repetition.

ASB seeks confidentiality on all aspects of this submission.

If you have any questions relating to this submission or the joint bank submission, please do not hesitate to contact me.

Yours sincerely,



Victoria Johnstone
Head of Regulatory Affairs
ASB Bank Limited



Executive Summary

This submission addresses the consultation questions that relate to:

1. ASB's specific back-up capabilities (**Q5**);
2. The potential cost to comply with the proposed outsourcing policy (**Q6, Q7 and Q13**); and
3. An estimate of the volume of outsourcing proposals ASB anticipates filing (**Q9**).

The remainder of the questions are addressed in the joint bank submission from ANZ, ASB, BNZ and Westpac, and have been omitted from this individual submission to save repetition.

ASB considers it has varying degrees of back-up capability in relation to functions which we have determined are key systems that relate to the proposed outsourcing policy. The back-up arrangements vary widely, depending on our assessment of criticality, and the consequences of supplier failure or separation from parent.

ASB considers that it is premature to estimate the potential costs to comply with the robust back-up requirements, as is still unclear what these compliance requirements would be for many of our outsourcing arrangements.

ASB also considers it is very difficult to estimate the potential volume of outsourcing proposals, as this requires significant assumptions in relation to the number of functions caught which have not yet been articulated by the RBNZ. Despite this lack of clarity, if the proposed whitelist detailed in the joint bank submission is accepted, we estimate we will submit a very manageable five to ten outsourcing applications per annum.

Q5: Does your bank already have back-up capability for all key systems?

In general yes, although a definition of 'key systems' is crucial to be able to answer this question in a meaningful way. ASB has determined it is likely to have approximately 40 systems, software or functions that relate (in some way) to the BS11 outcomes and which are not (currently) on the white list.

If the proposed whitelist in the joint bank submission is accepted by the RBNZ, the number of "key systems" reduces to less than 20, primarily due to the proposed software exceptions (under #26a and #26b of the proposed white list). We consider that this is a very manageable number and will not be unduly onerous to implement the new policy. On that basis we strongly support the white list changes proposed in the joint bank submission, particularly in relation to software.

Note our list of "key systems" has been determined using a qualitative assessment of materiality (e.g. does it feed or enable the GL, is it needed for our regulatory reporting requirements, does it relate to payment functionality) and should not be considered a full and final assessment of our position. The criticality of each function and the consequences of supplier failure mean that back-up capability differs substantially between items on the list.

The following paragraphs outline the back-up capability for the "key systems" (excluding those on the proposed whitelist).

Software (licensed via parent contract and hosted on ASB systems)

The key back-up arrangements for these systems relate to the ability of ASB maintain the same commercial terms directly with the software provider (and any support and maintenance functionality) upon separation from parent. We understand this is the case for all of the licenses identified in this category.

Note that software in this category would not immediately cease to operate on supplier failure. In addition, ASB has not individually assessed whether there are alternative providers for support and maintenance for all of the software arrangements within this category for the purposes of this submission, or whether there would be continuing access on normal commercial terms to services when the bank enters statutory management (unless the function relates to OBR).

Software (licensed via a parent contract with a supplier (or proprietary software owned by the parent which ASB has either direct or indirect access) and hosted on parent systems)

Depending on criticality of the function and the consequences of supplier failure or separation from the parent, back-up capability varies from a full standby system [REDACTED] to reliance on manual processes prior to sourcing new contract and capability [REDACTED]

Other CBA-enabled functions or services

Back-up capability varies from a full standby (e.g. SWIFT) to contract renegotiation and/or supplier substitution depending on the criticality of the function and the consequences of supplier failure or separation from the parent.

Other (non-CBA enabled functions)

Most items in this category relate to payments, data storage, and cash services. As such, back-up arrangements vary greatly, and depending on how the function is enabled and the consequences of supplier failure.

Q6: If yes, would your arrangements meet the requirements outlined above? If not, what would the costs be of upgrading your systems?

Q7: If your bank does not have back-up capability for the general ledger and/or SWIFT capability what would the cost be to develop this capability?

[REDACTED] We understand from bilateral discussions with the RBNZ as part of the consultation process that the intention is to apply the requirements outlined in paragraph 82 to only the “most critical” systems or functions that have been outsourced to a parent. However, the requirements outlined in paragraph 82 are made without reference to the outsourcing supplier (parent or unrelated party), the type of outsourcing (e.g., payments system versus software license versus software maintenance and support versus physical provision of service such as cash transportation as examples), and the host (ASB, parent or external party).

As noted above, without further guidance as to what features of a system would lead it to be considered “most critical” (other than the GL and SWIFT capability), and what the robust back-up requirements for “less critical” functions would be, it is impossible to accurately determine compliance costs, as it is still unclear what the compliance requirements would be under the new policy for almost all of our outsourcing arrangements (i.e. all systems other than those which are obviously critical). Costs will only be able to be determined once final applicability assessments can be made in respect of individual functions.

Q9: How many outsourcing proposals do you anticipate filing annually? Please note that this engagement process would not capture existing outsourcing arrangements that are covered by the transitional path to compliance, it would only cover new outsourcing proposals.

This very much depends on the final version of the white list. If the proposed whitelist in the joint bank submission is accepted by the RBNZ, we anticipate filing approximately [REDACTED] outsourcing arrangements per annum. The volume of proposals requiring a non-objection application would increase very substantially if certain items on the proposed whitelist are not accepted (e.g. for example we have at [REDACTED] providers which would all require an application if the whitelist remained in its current form). Unless clearly addressed via the finalised white list, every update, bug fix, work order or minor variation to each of these software contracts would also require RBNZ non-objection. We do not consider this an efficient or prudent use of either the RBNZ or regulated entities’ time.

Q13: Please provide your estimate of the costs and benefits of the revised policy options, taking account of the extended transitional path to compliance.

See Q6 and Q7 above. We reiterate that as currently drafted, the cost to implement would be significant and of limited benefit.