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Outsourcing Policy Review Consultation – TSB Response

Thank you for the opportunity to respond to your consultation document on the Outsourcing Policy.

TSB Bank is very supportive of what we see as the intent of the Outsourcing Policy, which is, as we understand it to reduce the likelihood of disruption to the financial system overall due to the failure of a material outsourced provider of products or services, or the disruption that could be caused by an outsourced provider refusing to provide products or services to a failed bank that the Reserve Bank is attempting to manage to minimise systemic disruption with least direct cost to the crown.

However, the proposal as it stands inadvertently introduces more risk, cost and complexity than it purports to reduce due to a number of key issues:

- Broad statements of intent or coverage with no definitional discipline behind them;
- Approaches inconsistent with general sound business practices and inconsistent treatment of critical suppliers; and
- An attempt to deal with three disparate issues through one policy document (namely Outsourcing of products and services, Crisis Management, and parental separation).

We believe that if these three core issues are dealt with appropriately, the policy would better able to be assessed, and would support prudent business practices at a reasonable cost.

As it stands, we believe the detailed proposals surrounding the policy do not meet its intent and do not support the proposal. We believe that it creates more risk to the Banking environment that it reduces.

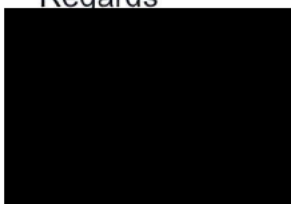
We are especially concerned by the lack of a Regulatory Impact Statement in respect of the proposal to broaden the reach of the policy to non-systemically important banks, and the lack of analysis of the regulatory or systemic failure that causes the Reserve Bank to make this recommendation.

That said, we believe that the principles behind the outsourcing policy (i.e. the practical and legal ability to control systems both in normal situations and in a crisis) are part of normal business practice and would be being managed by Bank Boards in the normal course of business.

Our detailed response is attached as appendix one and we have chosen to respond to each question where this appropriate. In areas where we have not responded we have felt that the question was outside our area of concern. Items in the table highlighted in yellow are confidential to TSB Bank and we would request that these are not made public.

Thank you again for the opportunity to comment on these proposed changes

Regards



Kevin Murphy