	Question	TSB Response
1	Do you agree with the analysis of the problem? Do you agree that the issues identified in paragraph 21 appropriately identify the potential problems with the banks' use of outsourcing?	TSB Bank believes that what the RBNZ is proposing in respect of outsourcing is admirable but it does not agree with the overall analysis of the problem. The Bank does not believe that outsourcing in and of itself decreases the soundness of the financial system, and we believe that it increases the efficiency of the system to a far greater extent than acknowledged by the RBNZ. This is especially true of a smaller financial system such as NZ, and smaller participants in the system, where outsourcing arrangements can improve the robustness and capability available to the system for very little cost investment. We also believe that it runs counter to international norms and developments such as cloud computing arrangements and consolidation of service arrangements. Furthermore, the whole definition of what is outsourcing is fraught with difficulty and will need to be carefully addressed by the Reserve Bank to minimise confusion. The following could all be outsourced arrangements of products or services: • Leasing of physical property, plant and equipment – rather than full ownership; • People providing service through arrangements other than contracts of employment; • Facilities Management – where the hardware, software, applications and data are owned by the Bank, but the physical facilities are provided by a third party; • Pure Cloud Computing – where the business applications, data, operating software, hardware and facilities are owned by the third party • Partial Cloud Computing – where the business applications and data are owned by the Bank, but the hardware, operating software and facilities are owned by a third party; and • Leased software – where the hardware, operating software, and data facilities are owned by the Bank, but the business application is owned by a third party.

	Question	TSB Response
		In respect of the second point – regarding significant damage to the system – TSB Bank believes that the existing contractual reinforcement processes available, together with the clear indication of the utilisation of a statutory manager guarantee as is already in place are sufficient to avoid damage to the system in a pure outsourcing arrangement. TSB also believe that these protections are also appropriate for other facilities such as telecoms etc. that are being excluded from the proposal. The Bank believes that the Reserve Bank is attempting to address three separate but related issues in the proposal – namely outsourcing, parental influence and control and crisis management, and that each of these issues are better addressed separately. TSB Bank further believes that the Reserve Bank outcomes in relation to outsourcing specifically would be better addressed by providing guidance to Boards of its expectations around the robust management of outsourcing arrangement by both Bank Management and Boards in order to ensure that such arrangements would not place the longer term viability or stability of the Bank's as institutions in jeopardy. Both Boards and Management have an obligation to manage the organisation for its long term viability – while doing so in the most efficient manner. Robust outsourcing arrangements allow Banks to do this effectively. TSB Bank is of the opinion that the issues identified in paragraph 21 do not appropriately identify problems with the regulated Bank's use of outsourced arrangements. Firstly – Banks would seek to have contractual arrangements that would ensure stability and continued service provision to increase the likelihood of recovery and reclamation of value to the owners of the Bank. Secondly, the current OBR requirements relating to contractual obligations surviving failure deal with most of the issues around core systems, and finally, the ability of the Statutory Manager to create a government guarantee on contracts that they honour will ensure that even those supplier contracts that do not have the standard OBR clause in them will be

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		easily replicated given that the supplier will be able to obtain further funding from the organisation – rather than just let it fail. TSB Bank is of the opinion that, especially in the case of non-systemic banks, the social cost of failure would not in any situation exceed the cost of failure to an individual Bank, and therefore does not agree with the RBNZ' s assertion in this regard in relation to non-systemically important banks. Finally, the Bank believes that issues relating to the failure of industry wide suppliers may be best addressed by not attempting to regulate each individual service purchaser in respect of that supplier – but rather by regulating the supplier itself – this is especially true of the non-systemic banks in the system.
2	Without an outsourcing policy how would you propose that a failure is managed?	TSB Bank notes that the Reserve Bank already has a significant number of failure management powers available both to it and the Financial Markets Authority which will not result in the wind up of financial institutions – and have already been used to allow financial institutions to trade through failure (e.g. PSIS in 1979). These include the Corporations Management and Investigations Act, the Reserve Bank's Open Bank Resolution requirements under BS17, its Capital management requirements under BS2a, and its expectations of capital management under BS12. Furthermore, the Reserve Bank's extensive powers under the Reserve Bank Act are also appropriate in this regard, specifically Sections 99, 101, 113, 113B and 117 of the Reserve Bank Act. TSB Bank believes that the RBNZ should clearly articulate that the Outsourcing policy is about prudent risk management of third party suppliers, and that the management of parental relationships, and failure management be separately dealt to under other policies. TSB Bank believes that a failure resolution plan should be separate from an outsourcing policy – which should focus on the prudent management of risks. A

	Question	TSB Response
		failure resolution plan should focus on requirements to: • describe a strategy for the orderly resolution of the bank in the event of material financial stress in the Bank; • maintain confidence of its depositors and be confidential between the Bank and its regulator; • deal with arrangements with key suppliers; and • be relevant to the riskiness, size and complexity of the Bank. TSB Bank does not believe that banks should have to focus on crisis events of a systemic nature, and that the RBNZ should focus its crisis intervention powers on these areas. Bank boards should be focussed on individual bank crisis events (name events) as these are within their area of influence and control. TSB Bank notes that international best practice appears to favour only larger banks being required to prepare a plan of this nature, given their systemic importance.
3	Do you agree that the current outcomes-focus should be retained?	TSB Bank notes that the RBNZ has, in most of its regulation, focussed on the Board having the right to determine what is an appropriate and effective risk mitigation strategy. Because of this, TSB Bank believes that an outcomes based focus should be retained, as a rules based prescriptive approach may result in inappropriate outcomes for banks that have differing risk models, appetites, and systemic impact. The Bank believes that the current outcomes focussed model is appropriate - with Boards focussed on the practical and legal ability to control all functions, services and processes – both on a day to day basis, and in a crisis.
4	*Do you agree that changing the objectives to focus more on resolution is right?*	TSB disagrees with the change in objectives as proposed. There should be an outsourcing risk management policy, a parental management policy, and a crisis management policy – each separate and individual and focussing on name risk alone.

	Question	TSB Response
		Systemic risk should be dealt through regulations of systemic providers and separate government policy.
5	*Do you agree that the current outcomes are appropriate? Do you agree that the outcomes should also include a resolution-focused requirement? Please explain.*	See above.
6	Do you agree that the matters identified above are the appropriate matters for inclusion in a separation plan? Are there any matters that have not been identified above, but should be included?	TSB does not agree with this proposal as part of an outsourcing policy. This is part of a parental management policy and should be dealt with in that policy framework. As TSB does not have an operating parent, it makes no further comment in this regard.
7	Does the proposed definition appropriately define outsourcing? If not, please provide an alternative definition that, in your opinion, better captures what is meant by the term outsourcing.	TSB is of the opinion that the proposal differs from that provided by the Basel Committee's report on outsourcing. It would be helpful to the Bank is the Reserve Bank provided an explanation of the reasons for the difference between the two. Furthermore, TSB Bank notes that the proposed definition does not include a materiality threshold for management. See our earlier comment on the definition of outsourcing. TSB Bank is concerned with the statement – "that could be undertaken by the registered Bank, both now or in the future" This statement is essentially too broad, and does not consider the ability of a Bank to effectively and efficiently undertake such processes – especially where they are a smaller participants in the system or have limited resources. While some functions may theoretically be able to be undertaken by a Bank, practically they could never do so – e.g. foreign exchange services, interchange and settlement, core system management, etc. TSB Bank believes that the phrase – "in the normal course of banking business" should also be included in the definition – otherwise, third party services –e.g. travel

	Question	TSB Response
		insurance may be captured by the policy.
8	Are there any other functions that should be excluded from the outsourcing policy, but are not captured in the list above?	TSB does not believe that a list such as this would be necessary if the outsourcing policy focussed on outcomes and were principles based (and crisis management and parental separation dealt with elsewhere.) However, if a list of exemptions is to be provided, TSB believes that the list is incomplete and would be more effective if it were principle based – with the items listed as examples. Furthermore, additional items such as the items listed below appear to have been omitted: • commercially available software and other commodities • credit background and information services • credit decisioning systems and models • correspondent banking services • maintenance and support of third party licenced software • clearance and settlement arrangements between members of a recognised system • sales of insurance policies • sales of wealth products • employment engagement arrangements • Payroll services
9	Do you agree that there are functions that are so integral to carrying on the business of a bank that they should not be outsourced? Do you agree that these examples are appropriate? Are there any other functions or systems that should not be outsourced?	TSB Bank believes that the argument that some activities are so integral to the operation of a Bank that they cannot be outsourced as being mistaken. Banks are in the business of managing risk and return, and so long as governance arrangements are robust and in alignment with corporate objectives of the Bank, then it should be up to the governing body which arrangements could be outsourced or not – given their obligations to the regulator, and as company directors.

	Question	TSB Response
		Specifically the examples given may give rise to sub-optimal outcomes. For example, data storage and facilities management is regularly outsourced, and the use of cloud computing and data management through shared infrastructure is growing exponentially. A restriction on this may be inappropriate and could, in our opinion, lead to greater risk of failure in banks through the adoption of less than best market practice if insourced due to resource restrictions, or lead to the reduction in competition in banking by only allowing the biggest participants to operate as banks. Furthermore, the requirement for Swift gateways and by implication – direct participation in payments interchange could also reduce competition and make the operational requirements of smaller organisations cost prohibitive. TSB believe that these two examples may be seen as anticompetitive and run the potential risk of reducing the overall efficiency of the financial system in NZ, by possibly limiting access to the provision of Banking Services to the largest players in the country.
10	Do you think an outsourcing arrangement compendium would be useful as a reference record between the Reserve Bank and a bank?	TSB Bank agrees that a compendium of outsourced arrangements should be maintained by Banks as part of their prudent risk management framework. Furthermore, it is of the opinion that this is a primarily a document for Board and management and that providing this information to the Reserve Bank would be a useful adjunct to ensure that the RBNZ were comfortable with the Board oversight of such risks. However, TSB Bank does not believe that this compendium itself should be integrated into of the conditions of registration of the Bank, rather that the compendium be required as part of the prudent management of outsourcing risks within a Bank and be signed off by the Board.

	Question	TSB Response
11	Are there any other matters not addressed above that should be included in the compendium?	TSB Bank is of the opinion that the amount of detail required for RBNZ purposes is possibly inappropriate and we believe it will potentially reduce the expectation on the Board that it is expected to prudently manage outsourcing risks.
12	What are the costs to you of establishing and maintaining an outsourcing arrangement compendium that forms part of your conditions of registration?	TSB Bank already has a compendium of arrangements.
13	Do you agree that all contracts for outsourcing arrangements should be required to include the terms outlined in paragraph 81?	TSB supports this proposal with the proviso that the RBNZ has clear and explicit statements about the government guarantee that would be in place if the Statutory Manager were to exercise their right to rely on these contracts. TSB believes that the second condition is only relevant for a parental risk management policy and has no place in an outsourcing arrangement. TSB also believes that the RBNZ should recognise that in some instances they may not be able to require third parties to agree to some of these terms if they are a global supplier – therefore the requirement for these obligations should be on a best endeavours basis.
14	Do you agree that option two is the most appropriate option for the assessment of outsourcing arrangements? Please explain.	TSB Bank does not support either option for notification. As stated earlier in our submission, we believe it is the Board's sole right to enter into such arrangements and prudently manage risks associated with outsourcing. TSB would prefer an option where the Bank has to satisfy the Board as to all arrangements in terms of the requirements of option two and that this can be made available to the RBZN on demand.
15	Do you agree that the approach outlined above is an appropriate way to manage the assessment of outsourcing proposals? If not, please explain.	As indicated earlier in our submission, TSB Bank disagrees with this approach. Firstly, it should be the Board's responsibility to deal with these issues and secondly, as there is no timeframe imposed, commercial arrangements may be frustrated by inaction of the RBNZ which could lead to sub-optimal outcomes for both the system

	Question	TSB Response
		and the Bank.
16	Do you agree that having standardised applications would assist in reducing the time taken to assess outsourcing proposals?	TSB does not support the proposal to provide applications to the RBNZ for reasons stated above. However if applications are required, a standardised approach would be preferable.
17	How many requests per annum do you expect to file in a business-as-usual state? How many requests do you expect to file at the outset of the policy?	TSB is unable to make a comment in this regard given the uncertainty around the proposed policy, the lack of materiality and lack of guidance in this area. However, in a business as usual phase, TSB would be expecting to have four to five arrangements created annually.
18	Do you think that that the threshold for the outsourcing policy should be aligned with the threshold for OBR pre-positioning, given the inter-linkages of the two policies? Would your bank impacted by an alignment? If so, provide detailed comments.	TSB is of the opinion that the policy as it stands is appropriate and that extending its reach is both unnecessary and will not achieve the objectives of the policy itself. We believe that an extension – especially if there are material areas that are forbidden to be outsourced could possibly increase system instability and reduce efficiency. TSB Bank would however support an extension of the policy if the Reserve Bank were able to show that the costs of extension to smaller participants was significantly less than the marginal benefit of the extension to the system and if the policy were outcomes focussed, recognised Board primacy, and did not have specific exclusions – as this is what we would be expecting a prudent Board to be undertaking in any case. TSB Bank would request that the Reserve Bank consider what is an appropriate cut off for an outsourcing policy, a failure management policy and a parental separation policy, and determine the cut offs based upon the outcomes of those policies, while taking into account existing cut-offs for OBR, systemically important banks and local incorporation of branches. TSB also believe that in respect of outsourcing and failure management, complete carve outs in relation to branch banks are inappropriate given the significance of some of these to the overall stability of the financial system as a whole.
19	[redacted]	[redacted]

	Question	TSB Response
	[redacted]	[redacted]
20	[redacted]	[redacted] [redacted] [redacted]
21	[redacted]	[redacted] [redacted] [redacted]