

Press release

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FINMA publishes outsourcing circular

The Swiss Financial Market Supervisory Authority FINMA is publishing its outsourcing circular, which introduces changes for banks and, for the first time, covers insurance companies. This circular regulates the way in which banks, securities dealers and insurance companies handle outsourced services. It will enter into force on 1 April 2018.

FINMA is publishing the Circular 2018/3 “Outsourcing – banks and insurers”, which updates regulatory requirements on outsourcing. It is applicable to banks, securities dealers and insurance companies. Current regulations were issued in 1999 when outsourcing was less widespread and are therefore out of date. The revised circular will enter into force on 1 April 2018.

Specific risks taken into account by principle-based regulation

FINMA has aligned the circular to reflect its principle-based approach and has made it technology-neutral so that financial institutions are able to implement outsourcing requirements while taking their specific business models and risks into consideration. Within this framework, appropriate allowance must be made for the higher risks resulting from the outsourcing of activities outside Switzerland, especially as regards company restructuring and resolution in Switzerland, which must be guaranteed.

Strong interest in consultation

The consultation exercise met with a high degree of interest. In addition to banks, securities dealers and insurers, several indirectly affected companies also gave an opinion. On the whole, respondents concurred that suitable regulatory outsourcing requirements are necessary, including approaches to handling the related risks. It was also their view that technological developments give cause for amendments to the existing circular.

FINMA responds to various issues raised

FINMA has accepted a number of key recommendations. For example, it has taken a principle-oriented approach to the notion of materiality of outsourcing initiatives, resulting in more emphasis placed on financial institutions’ self-assessment responsibilities. Additionally, FINMA has

clarified the rules governing the outsourcing of risk management and compliance functions as well as allowing principle-oriented treatment to cover intra-group outsourcing. Neither does the circular contain special implementing rules for systemically important banks. Other adjustments include the decision to extend the transition period for banks' existing outsourcing arrangements from two to five years. For insurers, the circular will apply from its entry into force to all first-time licensed businesses and in the event of business plan changes.