



BANKING AND PAYMENTS AUTHORITY OF KOSOVO  
AUTORITETI BANKAR DHE I PAGESAVE TE KOSOVES  
BANKARSKI I PLATNI AUTORITET KOSOVA

Advisory Letter 2006-1

11 May 2006

## Outsourcing of Financial Activities

### TO THE MANAGING DIRECTORS OF KOSOVO FINANCIAL INSTITUTIONS

Banks and other financial institutions have increasingly used “outside” services for many financial functions. These include services for accounting, payroll, loan origination and collection, credit/debit card processing, and IT services for all areas of financial activity. In some countries, even the internal audit function has been “outsourced.”

BPK wishes to make it clear that outsourcing does not relieve an institution of its risk management responsibilities for the outsourced activities.

The Basle Committee for Bank Supervision has issued a consultation paper on this topic, and Kosovo financial institutions are expected to adhere to its principles. These include the following:

- A financial institution’s governing board and senior management should establish and approve risk-based policies to govern the outsourcing process. The governing board retains responsibility for the outsourcing policy and related overall responsibility for activities undertaken under that policy.
- Financial institutions should establish a comprehensive outsourcing risk management program to address the outsourced activities and the relationship with the service provider. This program should provide the framework for management to identify, measure, monitor, and control the risks associated with outsourcing.
- The financial institution should ensure that outsourcing arrangements neither diminish its ability to fulfill its obligations to customers and the BPK, nor impede effective supervision by the BPK.
- The financial institution should conduct appropriate due diligence in selecting outside service providers.

**33 Garibaldi street Prishtina Kosovo UNMIK**  
Phone: +381 38 222 055 Fax: +381 38 243 763 Web: [www.bpk-kos.org](http://www.bpk-kos.org)

- Outsourcing relationships should be governed by written contracts that clearly describe all material aspects of the outsourcing arrangement, including the rights, responsibilities and expectations of all parties.
- The financial institution and its service providers should establish and maintain contingency plans, including a plan for disaster recovery and periodic testing of backup facilities.
- The financial institution should take appropriate steps to require that service providers protect confidential information of both the institution and its clients from intentional or inadvertent disclosure to unauthorized persons.

The complete consultation paper on the above principles can be found on the Basle Committee's website at: <http://www.bis.org/publ/joint09.pdf>. The degree of formality for this program, of course, should be determined by the extent and complexity of outsourcing in a given financial institution.

You are reminded that activities performed by outside service providers on behalf of a financial institution are subject to the same regulatory requirements as those of the financial institution. The BPK has the authority to supervise all of the activities and records of a financial institution, whether performed or maintained by the institution or by a third party on or off its premises.