

FCA on outsourcing: are you prepared for when it goes wrong?

AT A GLANCE

March 2020

What's new?

- The FCA published the findings of its [supervisory review on outsourcing in the life insurance sector](#) on 4 March 2020.
- The review looked at a sample of life insurers' systems and controls for managing outsourced service providers (OSPs), focusing on exit planning, business continuity planning, and governance, systems and controls.
- The review did not find evidence of widespread failure to manage the risks to customers arising from outsourcing, but the FCA did identify areas for improvement. These include examples of poor practice which the FCA is concerned could lead to poor customer outcomes.
- While the findings are most relevant for life insurers, and their OSPs, they are also relevant more widely for any firm that outsources key business functions.

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What does this mean?

The report outlines examples of both good and poor practice.

In particular it highlights:

- **Exit planning** - the need to have a documented exit plan that includes potential arrangements for a rapid exit
- **Business continuity planning** - the use of independent third-parties to provide assurance as to the effectiveness of OSP systems and controls
- **Governance, systems and controls** - the need for a clear governance structure with agreed escalation procedures, and the importance of overseeing the completion of agreed remediation actions.

What do firms need to do?

- The FCA expects life insurance firms to review their arrangements and consider how the findings relate to them. This includes where the examples of poor practice pose a heightened risk of harm to consumers
- However, we would encourage all firms to consider these findings in a review of their own outsourcing systems and controls and assess the potential harm risks
- The FCA has confirmed that no new rules or guidelines have emerged from this review. However, regulatory consultations remain open covering [outsourcing](#) (for PRA firms only) and [operational resilience](#). Firms should consider responding to the consultations as appropriate.

Next steps

Those firms which were part of the review are expected to take prompt review and (if needed) remediation action.

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