



EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Outsourcing register

Annual horizontal analysis



21 February 2024

Directorate General Horizontal Line Supervision
Non-Financial Risk Experts

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1. Introduction

- **Since 2022**, the **ECB has collected** the **outsourcing registers of all significant institutions** (SIs) within the Single Supervisory Mechanism (SSM) on an annual basis
- **For the 2023** data collection, the outsourcing register **template** was **enhanced** to facilitate the reporting process and improve data quality
- The **increasing reliance of banks on outsourcing** entails the need to adopt an **appropriate risk management and supervisory stance** to ensure and reinforce the **operational resilience** of the banking sector
- Key aspects, like **criticality** of outsourced functions, possibility to **reintegrate or substitute** outsourced services, and reliance on **providers outside the EU** and **cloud** service providers, should be analysed and monitored

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2. Outsourcing register overview

109
SIs in scope
of the 2023
data
collection



59,007

active
contracts



29,022

of which cover
critical
functions



10,427

of which with
external
providers



17,051

service
providers



5,929

of which
provide critical
functions



4,747

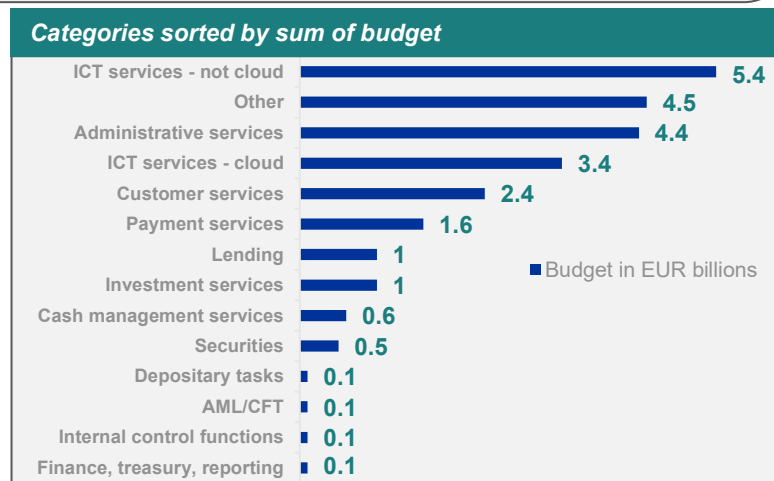
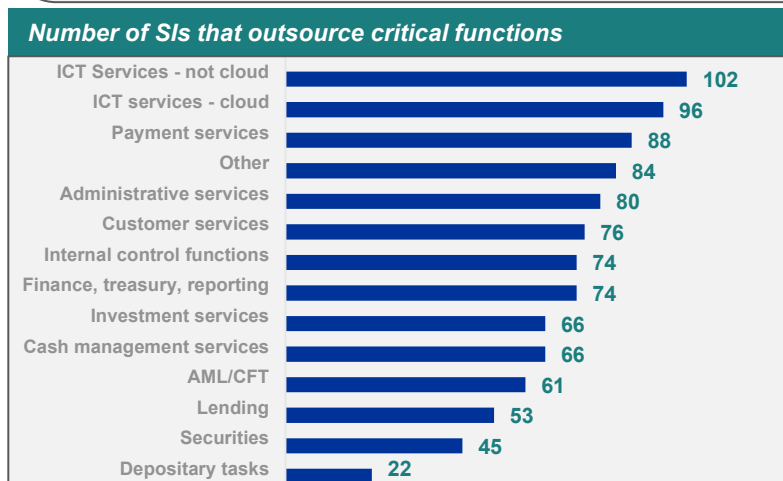
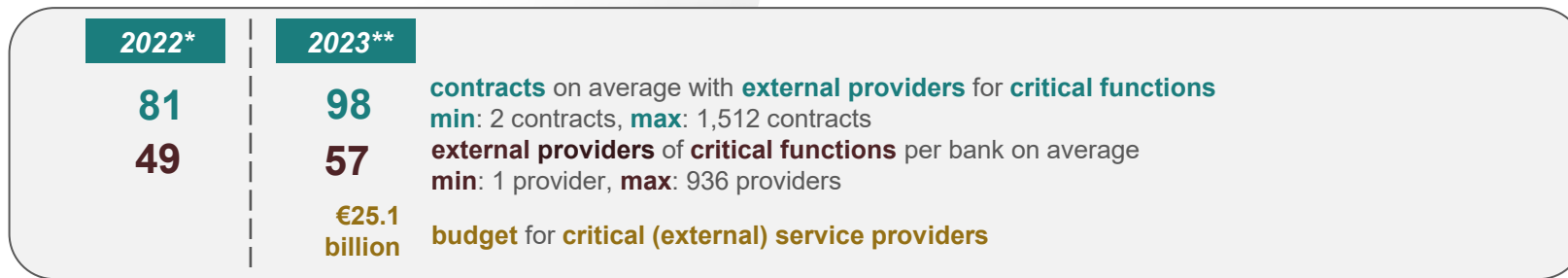
of which
external
providers



13

high-level categories for
outsourced functions

2.1. Increasing dependency on third-party providers for critical functions



(*) Data collection performed in 2022 with reference date end 2021
 (**) Data collection performed in 2023 with reference date end 2022

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Compliance with EBA guidelines

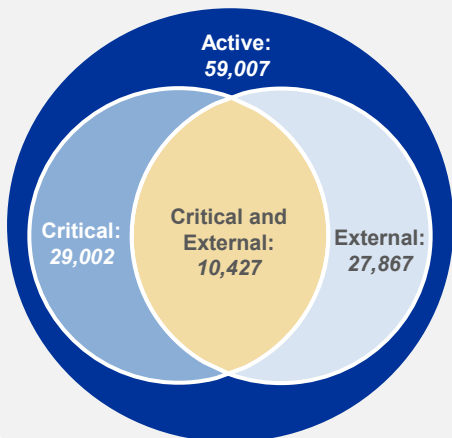
4

Conclusions

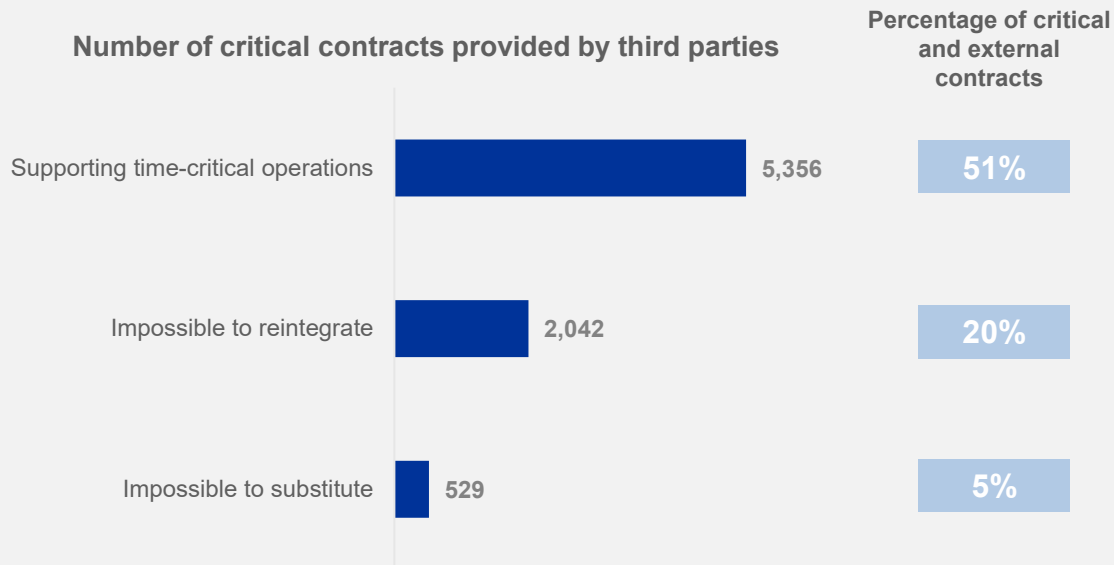
3.1. Criticality of outsourced services

A significant portion of critical contracts support time-critical functions and are impossible to reintegrate or impossible to substitute

Breakdown of active, critical and extra-group contracts

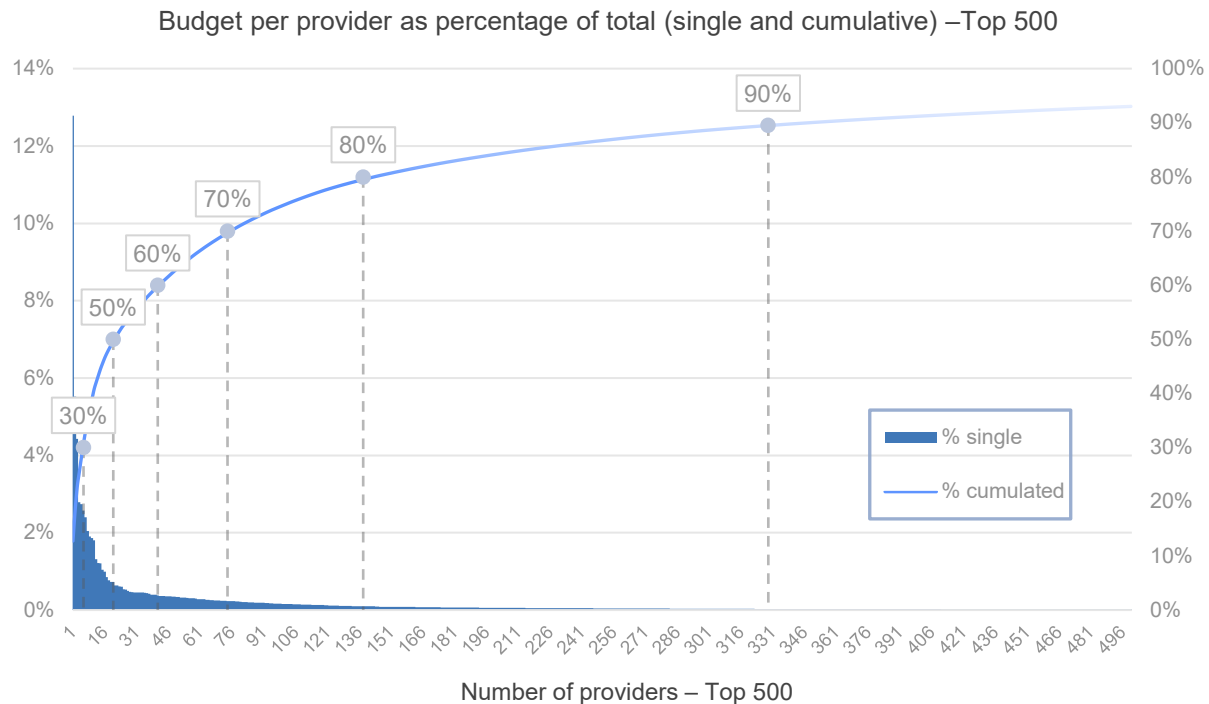


Number of critical contracts provided by third parties



3.2. Concentration among third-party providers

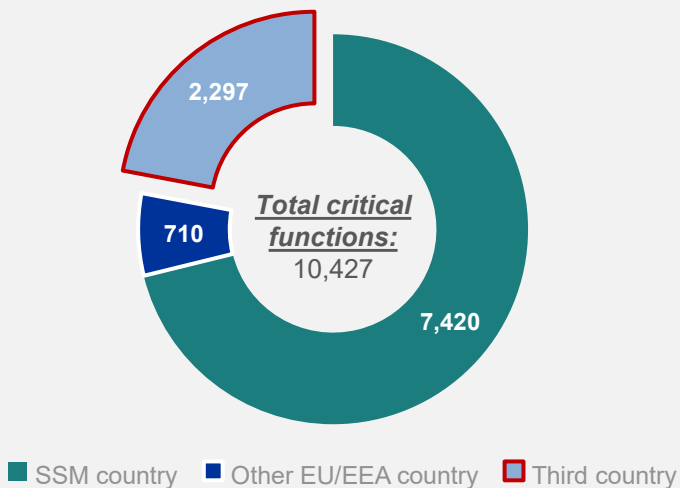
- Around **50%** of the **total budget**¹ is allocated to the top 20 third-party providers
- Around **90%** of the **total budget** is allocated to the top 300 third-party providers
- The level of **concentration** is **comparable to the 2022** data collection (previous iteration)



1. We focus only on critical contracts with third-party providers.

3.3. Dependencies on third countries

From where are critical functions provided?

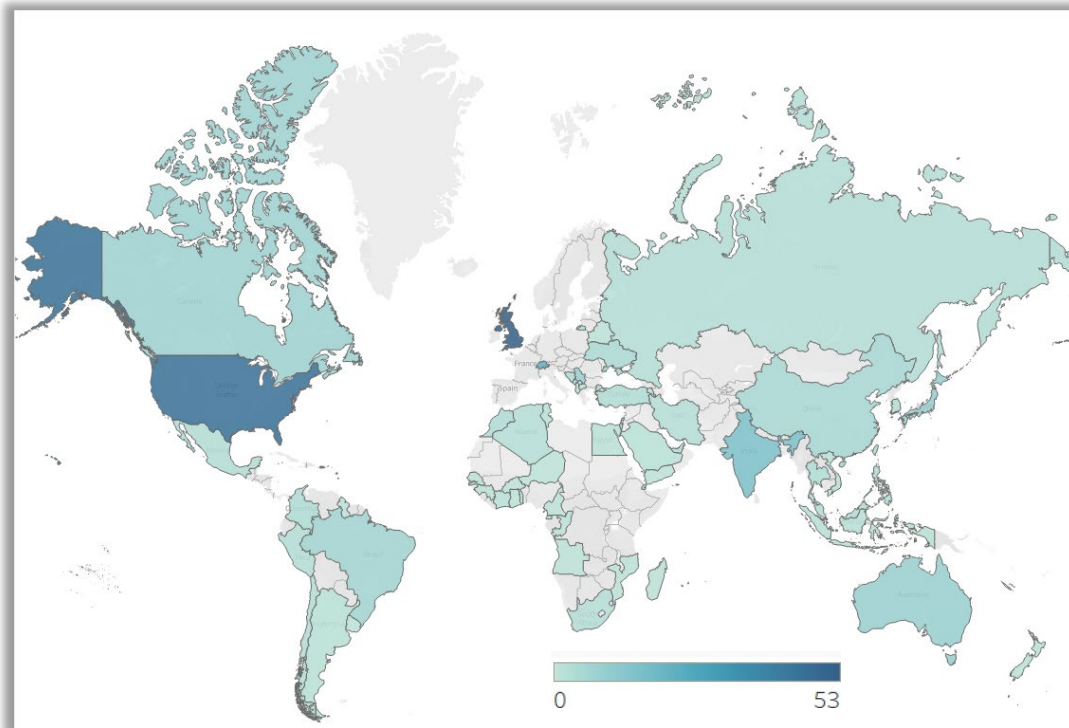


- In total, **2,297 critical functions** (around 22% of the total critical and extra group outsourcing) are offered from third countries
- In total, **73 banks** are using critical services from third countries

3.3. Dependencies on third countries*

Top ten

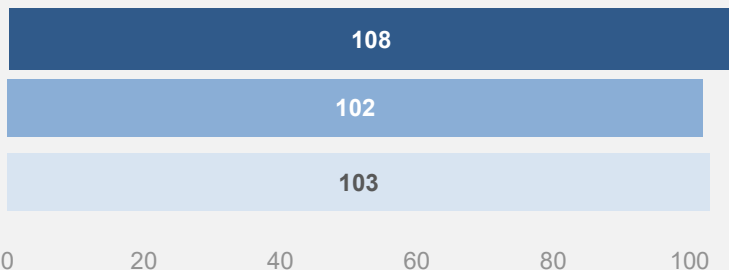
Country	Number of SIs
UK	53
US	46
CH	23
IN	16
SG	13
AU	9
JP	9
RS	9
CA	8
BR	7



(*) For critical or important functions provided by external companies

3.4. Cloud services on the rise

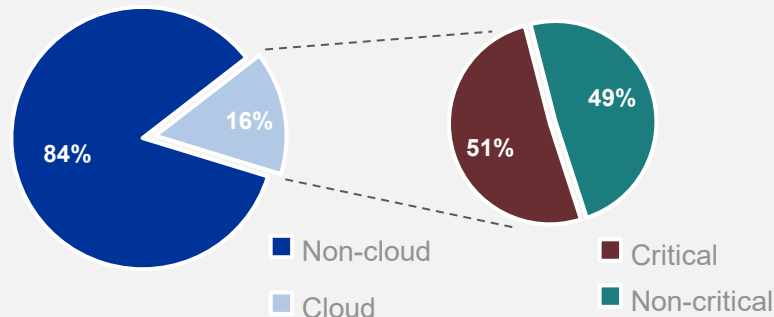
Number of SIs using cloud services



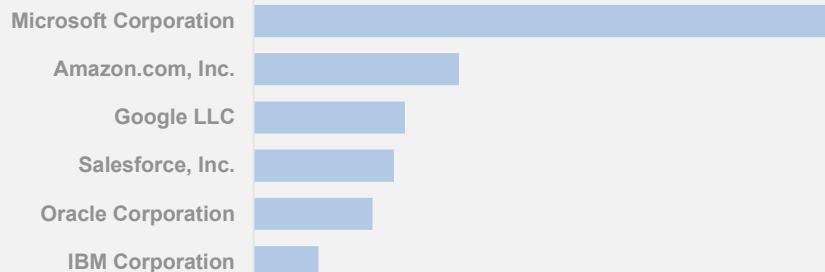
Out of **108** SIs using cloud:

- **102** use it for **non-critical** functions
- **103** use it for **critical** functions

Cloud as % of total outsourced contracts



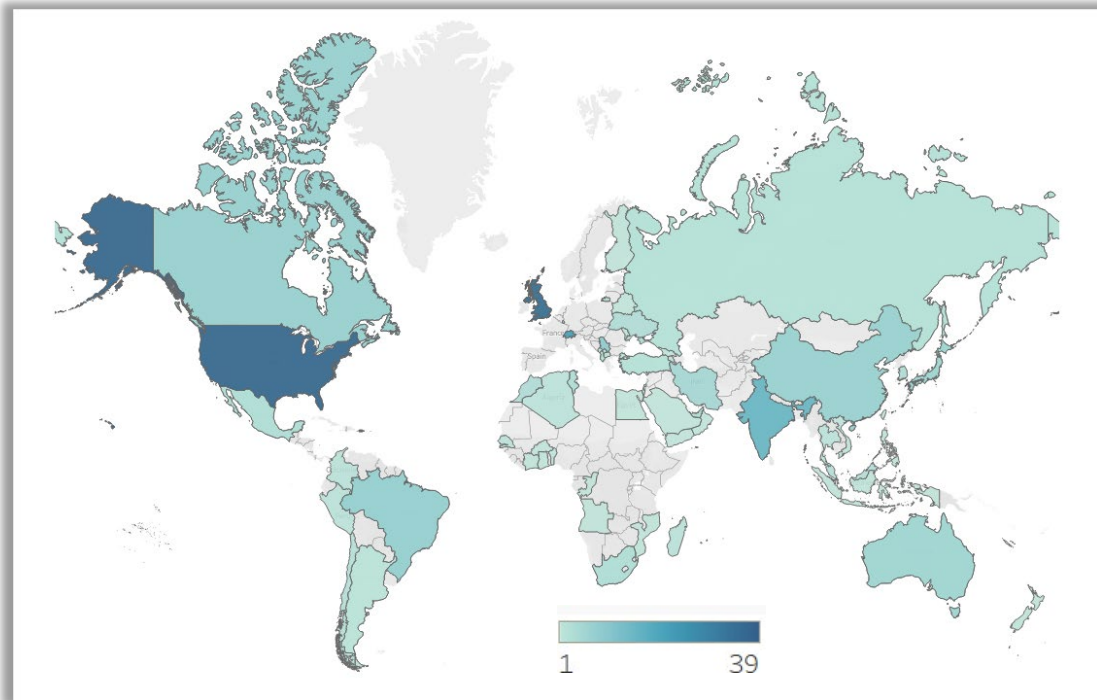
Top six cloud service providers based on number of banks using their services (extra-group)



1. In total, **99%** of SIs (108) outsourced at least one function that makes use of a cloud solution.
2. Around 15% of all outsourced contracts use cloud technologies.

3.5. Processing of personal data in third countries

Locations where third-party providers process personal data



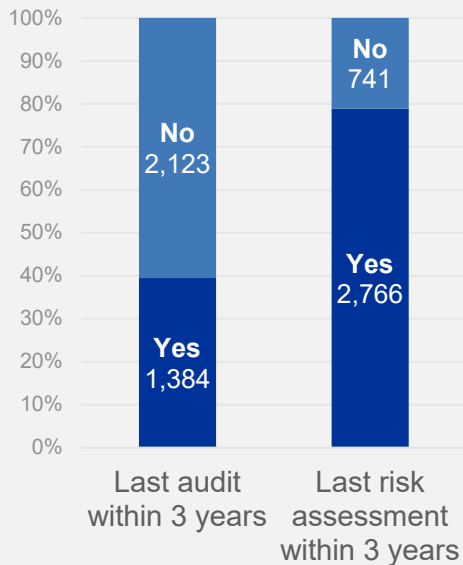
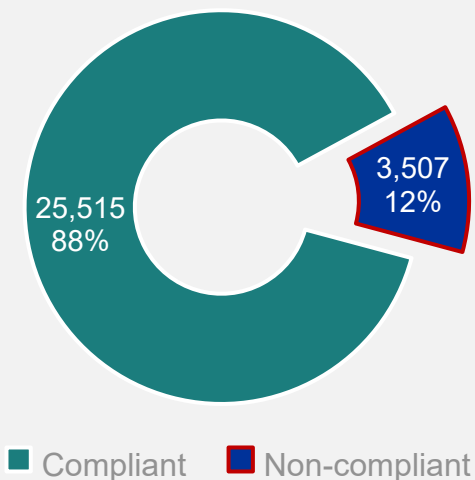
- Around **70% (41,233)** of all outsourcing contracts involve the processing of **personal data**
- In total, **73 SIs** outsource critical functions to third-party providers that process **personal data** in **third countries**

Top ten

Country	Number of SIs
US	39
UK	37
CH	23
IN	15
SG	15
HK	12
RS	9
BR	8
CN	7
CA	7

3.6. Compliance with EBA guidelines

EBA compliance among critical contracts



- **Available information** from the outsourcing register template does not allow **identification** of the underlying **root causes of non-compliance**
- EBA compliance is based on **self-assessment** provided by SIs
- Non-compliance is used as a **risk indicator** for targeted follow-up supervision

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4. Conclusions

- 1** **Increasing dependency on third-party providers** has been identified, with half the outsourcing contracts covering critical functions
- 2** **Outsourced services** are related **mainly to ICT** but also to **other relevant functions**, e.g. payments and administrative services
- 3** **50%** of all extra-group critical contracts support **time-critical functions**, **20%** are **impossible to reintegrate** and **5%** are **impossible to substitute**
- 4** Around **22% of critical extra-group outsourcing** is to providers located in **third countries (73 SIs)**
- 5** **108 SIs** use **cloud services**: around **50% of contracts on cloud services cover critical activities** and providers are mainly **located outside the EU/EEA**
- 6** Around **12%** of all reported **contracts** are **not compliant* with EBA guidelines**, of which **60% were not subject to audit** in last three years, showing the need for better risk management and deep ECB supervision

(*) Based on banks' self-assessment: potential risk that the true figure is even higher