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The Governor

**DIRECTIVE N° 2600/2023 - 00033[613] OF 07/07/2023 ON TREATMENT OF
SHARED SERVICES BY FINANCIAL INSTITUTIONS**

July 2023

DIRECTIVE N° 2600/2023 - 00033[613] OF 07/07/2023 ON TREATMENT OF SHARED SERVICES BY FINANCIAL INSTITUTIONS

The National Bank of Rwanda:

Pursuant to Law N° 48/2017 of 23/09/2017 governing the National Bank of Rwanda as amended to date, especially in its articles 6, 6*bis*, 8, 9, 10 and 15;

Pursuant to Law N° 072/2021 of 05/11/2021 governing deposit-taking microfinance institutions, especially in its articles 23, 24 and 102;

Pursuant to Law N° 030/2021 of 30/06/2021 governing the organization of insurance business, especially in its article 56, 57, 59, 66 and 67;

Pursuant to Law N° 47/2017 of 23/9/2017 governing the organization of banking, especially in its articles 37 and 117;

Pursuant to Law N° 05/2015 of 30/03/2015 governing the Organization of Pension Schemes, especially in its article 3;

Pursuant to Regulation N° 49/2022 OF 02/06/2022 on outsourcing especially in its article 19;

Considering that financial institutions with groups participate in centralized or shared services arrangements with their subsidiary's/affiliate companies and other entities in the group. The main drivers for sharing of services among group entities are the need to ensure cost efficiencies, leverage existing expertise and maintain consistency throughout the group. Normally, an intra-group charge is billed to the benefiting group members in consideration of the services provided to them;

Recognizing that, in general, the types of services that members of a group provide to each other with respect to our jurisdiction include, but are not limited to, management services, administrative services, technical services and Support;

Considering that the absence of standards for the treatment, application of costs and the prices related to shared services has led to abuses, uneven management of shared services in the financial sector and has been a source of concern for the Central Bank in recent years, particularly from the point of view of its governance and its financial implications;

ISSUES THE FOLLOWING DIRECTIVE:

CHAPTER ONE: GENERAL PROVISIONS

Article One: Purpose of this Directive

This Directive -

- (a) provides guidance to financial institutions that use shared services to ensure that the associated risks are appropriately identified and managed;
- (b) defines the obligations of the shared services partners with respect to their shared service;
- (c) ensures that the fees paid reflect the services rendered, taking into account the assets used and the risks assumed; and
- (d) establishes operational standards for financial institutions in accordance with best practices.

Article 2: Interpretation

In this Directive:

- (a) “shared service” means services (including management services) provided by a member of a group including parent to one or more subsidiaries/affiliates within the group, such that the funding and resourcing of the service is shared;
- (b) “Subsidiary/affiliates” means an entity, that is controlled by another entity usually referred to as the parent or group;
- (c) “Parent” means an entity that controls one or more subsidiaries;
- (d) “material shared services” mean:
 - (i) activities or services if disturbed, may significantly affect the capital, liquidity, business operations, reputation or profitability of the regulated institution;
 - (ii) involves non-public data and, in the event of any unauthorized access or disclosure, loss or theft, may have a material impact on customers of a regulated institution;
 - (iii) any activity which would have a significant impact on a financial institution’s risk management; and the management of risks relating to these activities; and
- (e) “recipient institution” means an institution in a group that benefits from shared services rendered by another institution within the group under a shared service agreement.
- (f) “arm’s length” means that transactions should be valued as if they had been carried out between unrelated parties, each acting in his own best interest; and

- (g) “service provider” means an individual or entity of the group that provides services to another party belongs to the same group.

Article 3: Scope and applicability

This Directive applies to financial institutions that are regulated or licensed by the Central Bank and are under the control of the group or parent.

Article 4: Functions or activities that cannot be under shared service arrangements.

- (1) Financial institutions are prohibited from any shared service arrangement with its parent/group core management functions including:
 - (a) Corporate planning;
 - (b) Organization;
 - (c) Management and
 - (d) Decision making functions like determination of compliance with applicable laws.
- (2) Shared service arrangements must not lead to the delegation of responsibility of the board of directors and senior management.

CHAPTER 2: SHARED SERVICE FRAMEWORK

Article 5: Responsibilities of the Board and Senior Management

- (1) Consistent with the Prudential Standard on Corporate Governance for financial institution, the Board of Directors of a financial institution is ultimately responsible for effective oversight of all shared services. Shared services do not diminish the obligations of Board and Senior Management to maintain effective oversight and governance of shared service arrangements, managing shared service risks, and implementing an adequate risk management framework on shared service, in accordance with this directive. The Board and Senior Management of financial institution must therefore, ensure that a sound risk management culture is in place to mitigate and manage risks arising from shared services, by taking the following steps:
 - (a) Provide strategic direction and oversight for the shared services, including ensuring alignment with the organization's goals and objectives, regular performance assessments, compliance with applicable laws and regulations and cost analysis shall be conducted to ensure value for money.
 - (b) Review and approve the establishment, continuation, or termination of shared services including significant changes in the scope, funding, or governance of shared service arrangements.

- (c) Evaluate the risk associated with all existing and proposed shared service arrangements;
 - (d) Carefully evaluate all shared service agreements or contracts; and ensure the reasonableness of fees charged for the services;
 - (e) Ensure that the shared service operations maintain an arms-length relationship with the participating business units, to prevent conflict of interest or undue influence.
 - (f) Develop a process for determining the materiality of the shared service arrangements;
 - (g) Implement sound policies and procedures for shared service arrangements;
 - (h) Conduct a comprehensive risk analysis and implement appropriate risk mitigation measures before the decision is made to enter into a shared service arrangement;
 - (i) Conduct due diligence and analyze the financial and infrastructural assets of the service provider (intra-group service provider);
 - (j) Ensure that there is a comprehensive contingency plan for the provision of shared services in the event of a breach of agreement, natural disaster or other unforeseen occurrences;
 - (k) Periodically review the effectiveness of these policies and procedures at least annually;
 - (l) Ensure that core management functions as stated above are not shared;
 - (m) Where the board delegates the responsibility of oversight and management of shared services to an appropriate specific board committee, the committee must be headed by an independent director;
 - (n) The board of the recipient institution informs the board of the provider company, in a timely manner, of any issues that may influence the ongoing viability of the shared service arrangement or any significant deviation from the Shared Service Agreement;
 - (o) Ensure that the service to be shared is of strategic importance to the institution and contributes to their overall vision and mission;
 - (p) Ensure that the institution discloses in its annual report to the supervisor, the services shared within the group and their related importance to that institution;
 - (q) Ensure that shared services agreements involving foreign parents and their subsidiaries/affiliate include a provision for capacity building for the subsidiary/affiliate and demonstrate that both are benefiting from the technical service agreements;
 - (a) approves all shared service arrangements; and
 - (r) regularly reviews reports on shared service arrangements;
- (2) The Board and Senior Management shall ensure that before a financial institution enter into any shared service arrangement/agreement with its parent or any other entity within the group:
- (a) The recipient entity does not have the expertise and capacity to carry out these services and the service is not readily available on the local market; or
 - (b) The provided service by the parent or any other entity within the group that is not material shall not be charged to the recipient entity.

- (c) In addition to the above, financial institution seeking to acquire technology on behalf of their subsidiaries/affiliates allocates the associated costs based on the expected volume of services to be consumed by the subsidiary/affiliates or any other allocation methodology approved by Supervisor.
 - (d) Financial institution with foreign parent ensures that in case of technology transfer, the agreements thereto exclusively convey rights to the local financial institution for the beneficial use of the technology.
- (3) The Board and Senior Management ensure that appropriate terms of reference, with clearly defined roles and responsibilities and reporting channels on the part of the service provider, are in place and included in the contract, which bind the agreement between the financial institution and the service provider.
 - (4) The Board and Senior Management ensure that the role of compliance and internal audit is not hindered by the shared service arrangement. The internal audit function and the risk and compliance function must have the authority

Article 6: Policies and Procedures

- (1) The Board and Senior Management establish specific policies, criteria and procedures for making decisions about shared service arrangements. These policies or procedures are assessed by the Risk Management function and include the following:
 - (a) An evaluation of whether the activity or service in particular should be shared, the risk implications, and parameters;
 - (b) Shared services are conducted at arm's length;
 - (c) Indicate how the services are to be shared;
 - (d) Indicate the roles and responsibilities of the parties involved;
 - (e) Indicate the process for pricing shared services;
 - (f) Specify appropriate change management process indicating the governance structure for reporting of exceptions to policy;
 - (g) Annual review; and
 - (h) Subject to regular internal audit oversight.
- (2) No activity is shared if it would impair the Central Bank 's right to assess, or its ability to supervise, the business of the financial institution.

Article 7: Materiality

- (1) Financial institution shall define the materiality of the shared service activities. In order to assess whether the shared service activity is material, the financial institution shall consider factors, such as:

- a) importance of the business activity to be shared (e.g., in terms of contribution to income and profit of a financial institution);
- b) potential impact of the shared service on earnings, solvency, liquidity, funding and capital, and risk profile;
- c) impact on the financial institution's reputation and brand value, and ability to achieve its business objectives, strategy and plans, should the service provider fail to perform the service or encounter a breach of confidentiality or security (e.g., compromise of nonpublic data);
- d) impact on the financial institution's customers, should the service provider fail to perform the service or encounter a breach of confidentiality or security;
- e) impact on the institution's counterparties and the Rwandan financial system, should the service provider fail to perform the service;
- f) cost of the shared service activity as a proportion of total operating costs of the institution;
- g) cost of the shared service failure
- h) aggregate risk exposure to a particular service provider in cases where the regulated institution shares various functions to the same service provider;
- i) ability to maintain appropriate internal controls and meet regulatory requirements, if the service provider faces operational problems.

Financial institution shall undertake a periodic review of its shared services arrangement's materiality to identify new risks as they arise.

Materiality shall be considered both at a regulated institution level and on a consolidated basis i.e. together with the institution's branches and corporations/entities under its control.

Article 8: Shared Services Agreement

A comprehensive written legal agreement governs all shared service arrangements. The clauses of the contract are appropriate to any shared service or activity and are done in relation to the on-going business and goals of the financial institution. The agreement is forward looking and is perused by the institution's legal counsel. The agreement includes, but not be limited to the following:

- (a) A clear definition and performance standards (qualitative and quantitative) for the activities, which are being shared;
- (b) The duration of the shared service;
- (c) The shared service arrangements comply with the law governing the organization of financial institutions and other regulations or Directives of financial institutions as well as other regulatory requirements in home and host countries;
- (d) Provisions to ensure that the service provider does not hinder the financial institution from meeting its regulatory obligations nor impede the Central Bank or other regulators from exercising its regulatory and supervisory powers or other laws in general;

- (e) Measures to address the risks identified at the risk evaluation stages;
- (f) Specification of the scope of the shared services arrangement, the services to be shared, the nature of the relationship between the financial institution and the service provider, confidentiality and security terms;
- (g) Performance, operational, internal control and risk management standards;
- (h) Confidentiality and security;
- (i) Business continuity management; and
- (j) A process of monitoring and oversight of the shared services.

Article 9: Service Level Agreements (SLAs) and Performance Metrics

- (1) Financial institutions put in place attributes of shared service level agreements and appropriate measures of performance metrics for monitoring. At least, the shared SLAs and performance metrics include:
 - (a) Service Level Agreements in the shared services contracts agree and establish accountability for performance expectations. SLAs clearly formalize the performance criteria to measure the quality and quantity of service levels.
 - (b) An effective oversight program that establish the following:
 - (i) Formal policy that defines the SLA program;
 - (ii) SLA monitoring process;
 - (iii) Recourse in case of non-performance;
 - (iv) Escalation process;
 - (c) Performance expectations, under both normal and contingency circumstances, putting in place provisions for timely and orderly intervention and rectification in the event of substandard performance by the service provider.
- (A) Shared services agreements include clauses that require the service provider to comply, not later than 30 days, with any request from Supervisor or the financial institution, to submit any reports on the security and control environment of the service provider to Supervisor, in relation to the shared services arrangement.

Article 10: Confidentiality and Security of Customer Information

- (1) Financial Institutions that engages in shared service arrangements ensures that measures are implemented to protect the confidentiality and security of customer information, and ensures that it is not misused or misappropriated. It ensures that service

providers have data protection, confidentiality and privacy policies or controls that are consistent with that of it. The shared service agreement includes provisions prohibiting the service provider from using or disclosing the financial institution's proprietary information or that of its customers.

- (2) To minimize the reputation and legal risks that may arise from breaches in confidentiality, the Board and Senior Management of financial institution ensures that procedures and policies are implemented to ensure that:
- (a) Only authorized individuals or systems have access to confidential data and records;
 - (b) All confidential data are maintained in a secure manner and protected from unauthorized viewing or modification during transmission over public, private or internal networks;
 - (c) The institution's standards and controls for data use and protection must be complied with, when third parties access data through shared service arrangements;
 - (d) All access to restricted data is logged and appropriate efforts are made to ensure that access logs are resistant to tampering;
 - (e) The issue of the party liable for losses in the event of a breach of confidentiality, security of customer information and the service provider's obligation to inform the bank; and
Review and monitor the security practices and control processes of the service provider on a regular basis, and requiring the service provider to disclose to the bank breaches of confidentiality in relation to customer information.

Article 11: Risk Management.

The Board and Senior Management shall be aware of and understand the risks arising from shared service arrangements. Financial institution shall establish a framework for risk evaluation which shall include the following activities.

- (a) identifying the role of shared service in the overall business strategy and objectives of the financial institution;
- (b) performing comprehensive due diligence on the nature, scope and complexity of the shared service arrangement to identify and mitigate key risks;
- (c) assessing the service provider's ability to employ a high standard of care in performing the shared service and meet regulatory standards as expected of the regulated institution, as if the shared service arrangement is performed by the financial institution itself;
- (d) analyzing the impact of the shared service arrangement on the overall risk profile of the financial institution, and whether there are adequate internal expertise and resources to mitigate the risks identified;
- (e) analyzing the concentration risk posed by multiple shared service to the same service provider and/or the concentration risk posed by sharing critical or important functions to a limited number of service providers
- (f) analyzing the benefits of shared service arrangements against the risks that may arise;

The risk evaluations shall be performed when the financial institution is planning to enter into a shared service arrangement with an existing or a new service provider, and also re- performed periodically on existing shared service arrangements, as part of the approval, strategic planning, risk management or internal control reviews of the shared service arrangements of the regulated institution

Article 12: Monitoring

Financial Institution establishes frameworks for the management and monitoring of its shared service arrangements:

- (g) Assign clear responsibility within the organization for the monitoring of the shared service arrangement;
- (h) Periodic review of all shared service arrangements with a more rigorous approach adopted for material activities. This is to ensure that the institution's shared service policies and procedures, and the requirements of the policy are effectively implemented;
- (i) Reporting to the Board on the monitoring of shared service arrangements;
- (j) Prompt actions and reporting on any adverse developments arising in any shared service arrangement is brought to the immediate attention of the Board, Senior Management, the service provider, and to the Supervisor; and
- (k) The maintenance of a register of all shared service agreements and ensure that the register is readily accessible for review by the Supervisor and Board.

Article 13: Audit and Inspection

- (1) The Central Bank shall obtain copies of any report made on the service provider whether produced by the service provider or internal or external auditors, or by agents appointed by the service provider, in relation to the shared services arrangement.

CHAPTER III: MISCELLANEOUS AND FINAL PROVISIONS

Article 14: Transfer Pricing

- (1) Financial Institution complies with the provisions of transfer pricing for any tax implication and also complies with other local tax laws. The fees involved are documented for all transactions between the service provider and the recipient in the same manner as if they were unrelated parties.
- (2) Transfer pricing reports are submitted to the competent authority in charge of taxes when requested.

Article 15: Regulatory Reporting

Financial Institution shall submit to the Central Bank a list of the shared services, their shared service contracts (with SLAs) and any other related reports at least annually or upon request. The annual register shall be submitted within (15) fifteen days after the end of the year.

Article 16: Compliance with relevant Regulations

Without prejudice to the provision of this Directive, financial institutions shall comply with the regulatory requirement provided for in the regulation on business continuity management and operational resilience, the regulation on outsourcing as well as the regulation on cybersecurity.

Article 17: Repealing provision

Any prior provisions of directive contrary to this directive are hereby repealed.

Article 18: Entry into force

This Directive shall come into force on the date of its signature.

Done at Kigali, on 7th July 2023.

RWANGOMBWA John
Governor