

Industry Standard on Outsourcing Management

A. Preamble

The Digital Lending Association is the central representative body of the Digital Lending ecosystem. Its affiliated members stand for the professional, honest and transparent operation of their businesses as well as the fulfillment of the highest quality standards in the interest of debtors, investors, and business partners. With the adoption of the "General Principles and Rules of Conduct" by the General Meeting on 4 June 2019, these self-imposed standards were codified. In accordance with the Articles of Association, all Ordinary Members undertake to comply with these principles and rules.

By resolution number 30 of the Board of Directors on 29 May 2020 (30-VS-200529-1), it was decided to flesh out these General Principles and Rules of Conduct by developing individual standards and thus set benchmarks for the entire industry. The authority to adopt them as "Industry Standards" lies with the General Meeting.

The subject of this standard is the firm establishment of Section II/1/B of the General Principles and Rules of Conduct.

The objective of the standard is to develop and promote an industry-wide understanding of the quality of management and internal control of outsourced activities and processes.

B. Definitions

- I. Outsourcing: Outsourcing is the commissioning of a third party to perform tasks that are directly related to the performance of the member's main business activity and could equally be performed by the member itself.
- II. Material Outsourcing: material outsourcing, as distinguished from simple outsourcing, is when the inadequate performance or failure to perform of this outsourcing would materially impair compliance with laws, financial performance, or even the soundness or continuity of the principal business activity.
- III. Other Outsourcing: these are activities by third parties contracted to perform tasks that are not directly related to the performance of the member's main business activity.

C. Industry Standard on Outsourcing Management (General Section).

Depending on the nature, scope, complexity and risk level of an outsourcing of activities to third parties contracted to perform certain aspects of the main business activity of a member, the member shall take reasonable precautions to avoid additional risks associated with the outsourcing. It shall not interfere with the proper conduct of business or the member's business organization. As part of a healthy risk culture, professional outsourcing management contributes to the advancement of the member's own business and the industry as a whole.

Based on a comprehensive analysis, the member shall identify the processes relevant for outsourcing and the risks associated with each of them. These processes are then to be assessed to determine whether they are material or immaterial. This risk analysis is to be carried out at appropriate intervals, but at least once a year, or on an ad hoc basis, as appropriate.

In addition to financial, operational, legal, (geo)political and reputational risks, particular attention should also be paid to data privacy and cyber risks. The concentration of risks in the event that several aspects of the main business activity are outsourced to a single third party should also be taken into account.

The organizational units affected by outsourcing are to be included in the process of identifying the processes relevant for outsourcing and the risks associated with each of them, but not in the assessment of whether the risks are material or immaterial.

In case of migration to cloud services, the member shall have oversight of any risk which might occur during the migration process. Potential risks need to be identified and closely monitored.

The storage of personal data in the cloud must be carried out in compliance with the relevant data protection laws.

The results of risk analyses are to be included in the compliance risk assessment to be carried out by the compliance officer of the Member every two years. Further details on the compliance officer can be found in the document, "Industry Standard for Compliance Organization".

A distinction may be made between outsourcing activities related to the main business activity (outsourcing) and other third-party procurement. The latter is not directly subject to the outsourcing management requirements described in this industry standard. However, since outsourcing can also be risky, it must be monitored from the general point of view of the proper conduct of business operations.

D. Industry Standard on Outsourcing Management (Special Section)

The following requirements must be observed in detail when implementing the association's standards:

I. Processes and Outsourcing Contract

Members shall take all reasonable organizational and contractual precautions to avoid risks that may arise from outsourcing. The objective is to organize outsourcing management in a responsible and efficient manner. To this end, the principles and procedures, reporting and controls are to be described by process instructions in such detail as to ensure their uniform efficiency. They must therefore be checked for any potential conflict with the existing internal processes and policies.

Particularly in the case of significant outsourcing, it must be ensured in the outsourcing agreement with the third party that the member's information and monitoring options are not restricted in any way.

The case of termination of an outsourcing agreement must be explicitly regulated by agreeing on ordinary and extraordinary termination options. Emergency situations must also be addressed. Contractual and internal procedural precautions must be taken to ensure the continuity of proper business operations. The options for action are to be reviewed regularly and on an ad hoc basis, as appropriate.

II. Sub Outsourcing

If the third party in turn further outsources to other parties (subcontractors), this does not change the member's ultimate responsibility for managing and monitoring all risks associated with the outsourcing chain. The member should ensure in the contract with the third party, for cases where further outsourcing of activities classified as material outsourcing takes place, that the engagement of subcontractors is subject to at least the same level of management and control as the initial outsourcing. Restrictions, particularly those under which only similar obligations or, for example, tiered reporting and monitoring procedures are incorporated into the contract with the subcontractor, are not permitted.

In the case of subcontracting, the same content requirements apply to the contract as those mentioned above under item D.I. in connection with the initial outsourcing.

III. Organization and Monitoring

The management bears overall responsibility for the implementation and monitoring of outsourcing management. It may be assisted by a central outsourcing manager. It may also assign this task to the compliance officer; further details on the compliance officer can be found in the document "Industry Standard for Compliance Organization". The central outsourcing manager receives the necessary information from the organizational units affected by the respective outsourcing. For this purpose, decentralized outsourcing managers can be designated in the respective organizational unit to serve as direct contacts for the central outsourcing manager.

The management shall ensure that sufficient knowledge and experience are available within the company to allow effective monitoring of the concrete services provided by a third party or subcontractor.

The outsourcing manager shall be responsible for ensuring that a monitoring system appropriate to the nature, scope and complexity of the specific outsourcing activities is implemented and further developed. Particular attention shall be paid to the avoidance of conflicts of interest, as well as to a contractual possibility to issue instructions to third parties and subcontractors regarding the outsourced activities, if necessary, in order to ensure the effective management of the outsourcing (chain).

An electronically supported system for recording, processing and systematic evaluation of outsourcing activities as well as outsourcing chains (outsourcing register) shall be established and maintained. All essential documents, procedural steps, findings and evaluations relevant to monitoring shall be stored there without delay - protected from unauthorized access by third parties. The system must be protected against changes not required by the facts, must allow subsequent changes or additions to be identified, and must ensure unhindered access for the outsourcing manager. The compliance officer shall be granted unrestricted system access upon request.

The stored data must be retained for at least five years, subject to conflicting legal requirements.

E. Outsourcing Report

The outsourcing manager shall report at least once a year and on an ad hoc basis, as appropriate, in writing to the management on their monitoring and control activities (outsourcing report). This shall include at least the following items:

- An illustration of all outsourcing, in each case including the classification as simple or significant outsourcing (other external procurement is not to be listed).
- A presentation and evaluation of whether the contractually agreed quality and the performance targets (service level agreements) have been achieved; Malfunctions/interruptions are to be highlighted, and the process for solving any malfunctions by support is also to be included.
- An assessment of whether the outsourced activities and processes could be adequately controlled and monitored; any lack of cooperation shall be highlighted and described.
- A statement that relevant data protection regulations and other security requirements were taken into account; failures to comply with the relevant data protection regulations and laws are to be highlighted and the process for remedying these failures is to be described.
- An outline of whether risk mitigating measures should be taken for the future.
- Any contact with or by supervisory authorities in connection with significant outsourcing shall be detailed and an explanation provided as to whether the issues have been resolved to the satisfaction of the officials.
- Management shall adopt a formal resolution acknowledging the outsourcing report. In addition, the report should also be forwarded to the relevant supervisory body, if one exists.

F. Further Training of the Outsourcing Officer; Training of Employees

All employees shall receive training on outsourcing management policies and procedures on an as-needed basis.

G. Controls of Compliance with this Industry Standard

The members shall have plans for regular monitoring of compliance with this Industry Standard and specify the allocation of responsibilities. The results shall be reported to the management.

To ensure the effectiveness of the monitoring, it shall be performed by the compliance officer. The results may also be presented to management in the outsourcing report.

H. Key Performance and Risk Indicators

The Member shall develop Key Performance Indicators (KPI) and Key Risk Indicators (KRI) to measure and assess the performance of any third parties or subcontractors on a regular, risk-based basis.

I. Deviations from the Provisions of this Industry Standard

As a general rule, there shall be no deviation from the provisions of this Industry Standard.

Since the business models are various, depending on the size, type, scope, complexity and risk content of business activities, the standard can be implemented by the members in different dimensions and for some only partially. In justified cases, deviations are therefore possible as an exception. For this purpose, an application in text form justifying the deviation shall be submitted to the Board of Directors. The decision shall be taken by a qualified majority in accordance with the Articles of Association.

A member who has been awarded the Quality Seal may have it withdrawn by the General Meeting by a simple majority if the member deviates from the provisions of this Industry Standard without having previously informed the Board of Directors about the deviations in good time.

J. Review clause

This Industry Standard shall be subject to revision by the Committee on Risk & Compliance Management of the Digital Lending Association at two-year intervals. Any amendments and/or additions shall be adopted by the General Meeting by qualified majority.