THIRD-PARTY RISK MANAGEMENT AND STRATEGIC PARTNERSHIPS OBSERVATION REPORT

South African Reserve Bank
Prudential Authority

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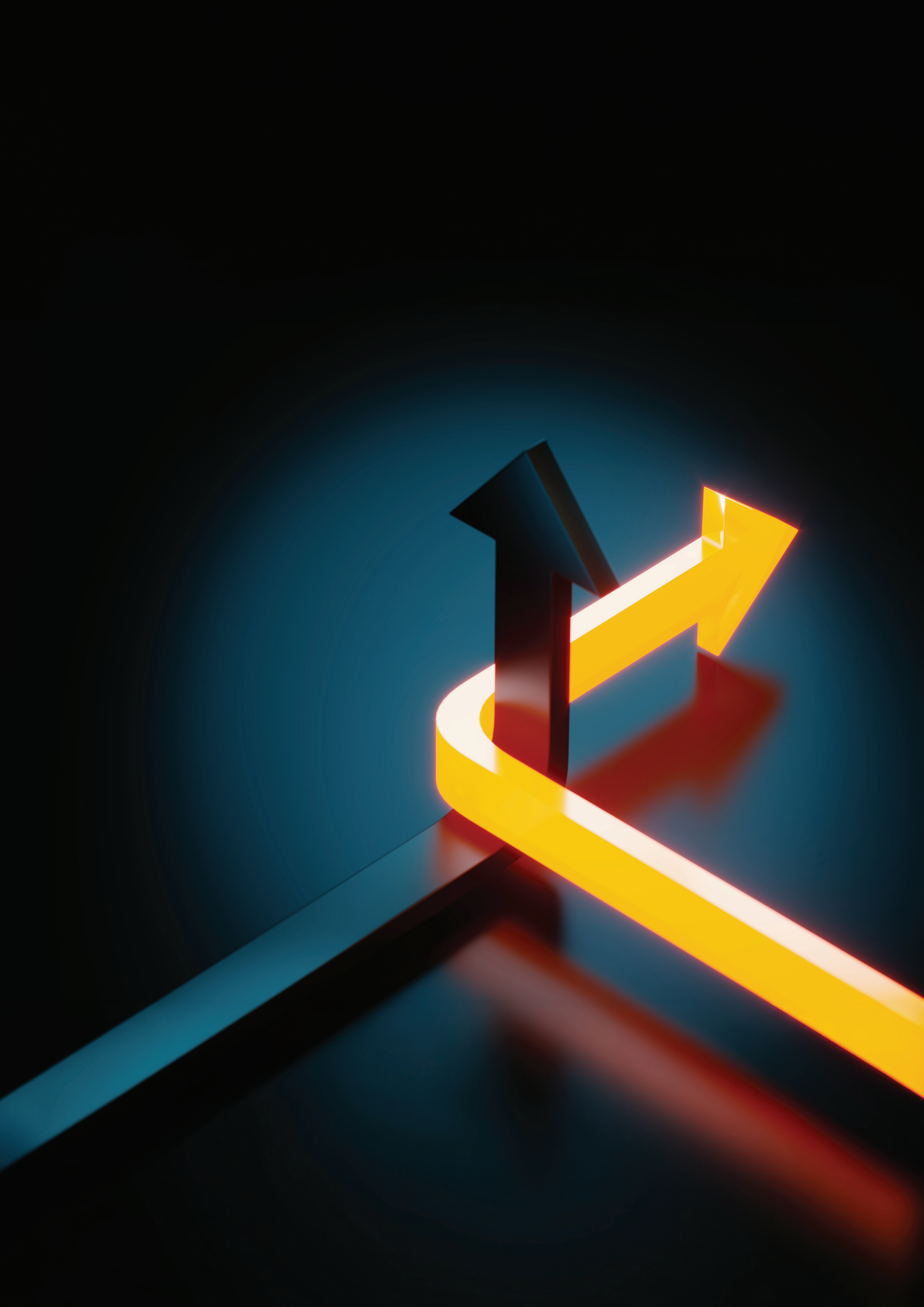
Observations from the 2025 'flavour-of-the-year' discussions with boards of directors and senior management of selected regulated financial institutions as well as responses to a survey on third-party risk management, including strategic partnerships and binder agreements

Contents



1. Executive summary

The Prudential Authority (PA) selected third-party risk management (TPRM), including strategic partnerships and binder agreements, as its 2025 'flavour-of-the-year' (FOTY) supervisory focus area. This report consolidates insights from supervisory engagements and survey responses submitted by regulated financial institutions.

The report is intended for information purposes only and does not constitute regulatory guidance or supervisory expectations.

The PA is of the view that this information will contribute to strengthening the capability of regulated financial institutions as well as enhance their risk management practices and approaches for managing third-party risk, including risks arising from strategic partnerships and binder agreements.

The observations highlight a significant increase in the reliance on third-party service providers across the financial sector, driven by the need for scalability, cost efficiencies and access to specialised capabilities. This has, however, introduced heightened systemic, operational and governance risks, particularly in relation to concentration risk, ever-evolving cyber threats as well as complex interdependencies and interrelations. In addition, global geopolitical tensions and supply-chain disruptions have amplified the risk of third-party failures, with potential adverse impacts on institutional operations, reputation and customer trust.

Although many institutions have formal TPRM frameworks in place, inconsistent implementation, weak governance and insufficient risk management practices remain key supervisory concerns. The PA has reiterated that accountability for outsourced activities remains with the regulated entities, irrespective of delegation to third parties.

2. Background

Each year the PA considers whether any current developments and/or emerging risks affecting regulated financial institutions at an industry level are of such significance that additional focus is required from a supervisory perspective. It communicates the selected theme or themes to institutions in the first quarter of the year and refers to them as FOTY topics.

The PA included the 2025 FOTY topic as an agenda item for discussion in its annual supervisory meetings with boards of directors (boards) and senior management (or country/branch oversight committees in case of foreign branches). Focused engagement encouraged regulated financial institutions to reflect on their TPRM practices and, subsequently, develop and implement strategies to effectively manage third-party risk, including risks arising from strategic partnerships and binder agreements. The PA also analysed responses to a survey that was issued to selected regulated financial institutions to identify whether further regulatory or supervisory action was needed.

3. Introduction

The exponential growth in third-party usage has increased the complexity of effective risk management, requiring institutions to continually evolve and strengthen their TPRM practices. However, this heightened reliance on third parties gives rise to a range of new risks, including concentration risk, cybersecurity threats and operational resilience challenges. Consequently, the PA was concerned about the potential systemic implications arising from regulated financial institutions' growing reliance on third parties, particularly where these risks were not adequately managed and the complexity of such relationships continued to evolve.

On 23 May 2023, the International Association of Insurance Supervisors published the *Issues Paper on Insurance Sector Operational Resilience*, which identifies information technology third-party outsourcing as a key risk area and outlines related supervisory approaches. On 4 December 2023, the Financial Stability Board issued a toolkit aimed at enhancing TPRM as well as oversight for financial institutions and authorities. Similarly, on 10 December 2025, the Basel Committee on Banking Supervision published the *Principles for the Sound Management of Third-Party Risk*, replacing and expanding on the earlier 2005 Joint Forum outsourcing guidance to reflect the broader and more complex third-party ecosystem.

Collectively, these publications provide important guidance to regulated financial institutions and the PA on the effective management of third-party risks.

Developing a robust, efficient and fit-for-purpose TPRM framework – integrated within the broader enterprise risk management framework – is critical to an organisation's long-term success. A holistic, end-to-end approach to supplier life-cycle management requires institutions to place equal emphasis on supplier risk management, supplier relationship management and contract management, ensuring that risks are effectively identified, assessed, managed and monitored throughout the life cycle of third-party engagements.

For the purposes of this report, boards were requested to articulate their respective institutions' perspectives, strategies and actions undertaken or planned to address TPRM and strategic partnerships. In other instances, institutions provided input through structured surveys covering the same thematic areas.

More specifically, boards were requested to present on their respective approaches to managing risks and opportunities across the thematic areas outlined in Figure 1.

Figure 1: Thematic areas of discussion

3.1 Strategic and alliance partnerships

Strategic partnerships (including joint ventures, licensing arrangements and Banking-as-a-Service models) are increasingly central to business models, enabling institutions to leverage complementary capabilities.

Key considerations in these types of arrangements include:

- alignment with business strategy;
- rigorous partner selection processes;
- defined objectives, key performance indicators and risk indicators;
- clear governance structures and accountability;
- continuous performance monitoring; and
- robust exit strategies.

3.2 Binder agreements

In the insurance sector, binder agreements represent a structured outsourcing model where third parties perform delegated functions under strict oversight and contractual requirements.

4. Sector-wide observations

4.1 Key systemic risks identified

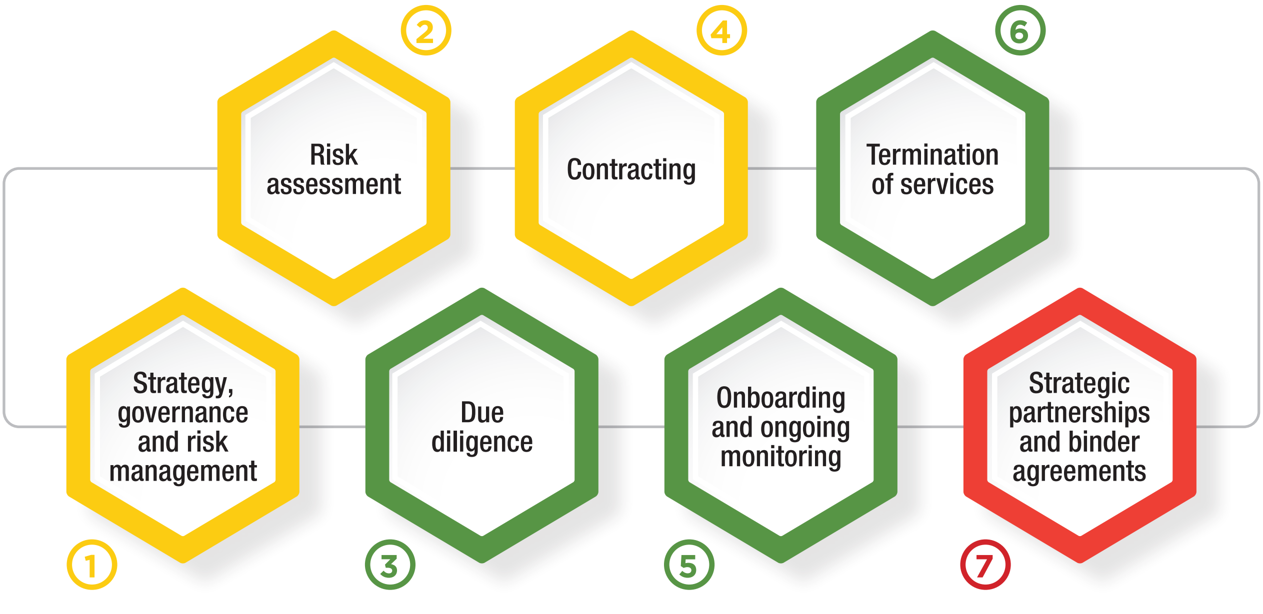
The PA highlighted the following critical systemic concerns:

- over-reliance on a limited number of third-party service providers;
- inconsistent governance and oversight practices;
- inadequate contingency planning and exit strategies;
- insufficient risk assessments and simplistic due diligence;
- limited regulatory access to third-party information;
- complex responsibility matrices in strategic partnerships;
- increasing cybersecurity threats;
- growing environmental, social and governance as well as geopolitical risks; and
- rising systemic risks from concentration and interdependency.

4.2 Range of practices

Based on the information received from regulated financial institutions, the PA assessed their TPRM practices, including strategic partnerships and binder agreements. In addition, their responses to a survey were included as part of the analysis, as shown in Figure 2.

Figure 2: Sector-consolidated thematic assessment



TPRM was widely recognised as a core enabler of operational resilience and strategic agility across the financial sector. However, the maturity of governance frameworks varied significantly across institutions, reflecting uneven levels of oversight, accountability and integration within the broader risk management structures.

Institutions identified a broad spectrum of risks (operational, cyber, reputational and compliance-related). Risk-tiering of third-party service providers (into high, medium or low) was generally applied, and reporting structures to boards and oversight committees were normally established. Monitoring mechanisms included scorecards, reviews and performance metrics. Interdependencies with large service providers (e.g. hyperscale cloud providers) presented challenges. Risk-based due diligence was widely adopted; however, concentration risk and reliance on a limited supplier base remained concerns.

Most institutions had formal contracts with risk-specific clauses (e.g. on data protection and dispute resolution). Contract life-cycle management practices were observed but varied in maturity. Structured exit strategies were in place, but with persistent gaps in contingency planning and incident management processes that required strengthening.

Extracting, monitoring and realising value from strategic partnerships was a key focus area across institutions. Most organisations had well-established and dedicated governance structures in place, including board-level and oversight committees, to ensure appropriate representation, accountability and oversight of these partnerships.

Certain strategic partnerships were inherently complex and not easily substitutable or transferable. These arrangements were often characterised by deep operational, technological and/or financial interdependencies with regulated financial institutions, which could limit exit flexibility. As a result, such partnerships contributed to heightened concentration, lock-in and continuity risks, particularly in distressed or failure scenarios.

5. Sector-specific insights

5.1 Banking sector

Larger banking groups and financial conglomerates demonstrated relatively stronger governance structures, greater integration and higher levels of maturity in their TPRM practices.

In contrast, medium and smaller institutions, including the branches of foreign banks, exhibited several challenges, including:
- limited articulation and definition of risk appetite in relation to third-party risk;
- weaker contractual protections and insufficient governance detail; and
- elevated concentration risk arising from reliance on a limited number of key suppliers, which remains a systemic concern.

5.2 Insurance sector

Similarly to the banking sector, larger insurers demonstrated strong integration of TPRM into their enterprise risk management frameworks, supported by well-defined governance and oversight structures.

However, challenges remained in the following areas:
- incomplete contractual provisions, including service level agreements as well as access and audit rights;
- limited governance and oversight of strategic partnerships; and
- sector-wide inconsistency in how binder agreements were governed (generally better-governed in the more mature institutions).

5.3 Market infrastructure

For market infrastructure, governance integration was noted while board oversight and strategic alignment remained unclear.

Key challenges included:
- weak onboarding and monitoring processes;
- limited consideration of fourth-party risks; and
- insufficient contractual access provisions.

5.4 Cooperative banks and cooperative financial institutions

The governance structures of cooperative banks and cooperative financial institutions lacked depth and integration due to their nature, size and complexity.

Key challenges included:
- informal risk assessments;
- weak due diligence practices;
- insufficient monitoring frameworks; and
- underdeveloped strategic partnership management.

6. Conclusion

TPRM has become a strategic and systemic priority across the financial sector. While institutions have made progress in establishing frameworks, material gaps remain in execution, governance and risk management maturity.

Due to the limited number of service providers in South Africa, concentration risk in many areas is unavoidable and multidimensional. This has been highlighted as a major concern that may create a systemic risk for the financial sector and must therefore be closely monitored.

The PA has observed a marked increase in the use of strategic and alliance partnerships across the financial sector. While these arrangements present opportunities for innovation and growth, several ambiguities and 'grey areas' persist in their structuring, governance and regulatory treatment. These areas require further clarification to enhance regulatory certainty and ensure a consistent supervisory approach, particularly in relation to accountability, risk ownership and the application of existing regulatory frameworks.

Ultimately, resilient and effective TPRM frameworks are essential to maintaining financial stability and systemic resilience.

7. Next steps

The 2025 FOTY discussions provided the PA with an overview of how regulated financial institutions are embedding TPRM practices. The observations have already been incorporated into supervisory activities. The Financial Sector Conduct Authority and the PA are consequently in the process of enhancing and harmonising the existing regulatory instruments on TPRM.

The PA continues to enhance industry collaboration and coordination to explore and develop appropriate regulatory and supervisory frameworks for strategic partnerships.

Finally, the PA would like to emphasise that outsourcing does not transfer regulatory accountability. Financial institutions thus remain fully responsible for compliance and risk outcomes. In addition, third-party relationships must not adversely affect an institution's risk profile. Institutions are therefore expected to:
- strengthen continuous monitoring (not rely on periodic reviews only);
- conduct ongoing due diligence and reassessments;
- enhance governance and board oversight; and
- address systemic concentration risks proactively.

board	board of directors	**PA**	Prudential Authority
FOTY	flavour-of-the-year	**TPRM**	third-party risk management

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