Managing Risks and Security in Outsourced Environment

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Key facts and figures

• An international airline registered and based in Hong Kong
• 127 aircrafts offering scheduled cargo and passenger services to 143 destinations in 39 countries and territories
• Major shareholders
  • Swire Pacific Limited (43.97%)
  • Air China Limited (29.99%)
  • CITIC Pacific Limited (1.98%)
• About 19,000 staff worldwide
Our vision and missions

Our vision is to be the world’s best airline. Being the best means that we always strive to excel in everything we do. Our dynamic team provides the highest quality service so that our customers are happy they chose Cathay Pacific.

We put safety first
We grow a winning team
We provide outstanding products and services
We consistently deliver Service Straight From The Heart
We produce superior financial returns
We support Hong Kong
We are a socially and environmentally responsible company
Outsourcing footprints in Cathay Pacific

- Information technology
  - Business solutions hosting – ASP / SaaS
  - Data centre hosting and management
  - Application maintenance and development
  - Network, server and desktop maintenance
  - ....

- Back office operations
  - Aircraft maintenance
  - Loyalty marketing
  - Ground handling (in small ports outside Hong Kong)
  - ....
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What is outsourcing?

... outsourcing is often viewed as involving the **contracting out of a business function - commonly one previously performed in-house - to an external provider.** In this sense, two organizations may enter into a contractual agreement involving an exchange of services and payments ... (Source: Wikipedia)

Outsourcing can be **onsite** (outsourcing staff working in the same location), **offsite** (outsourcing staff working in a remote location under the same geographical area) or **offshore** (outsourcing staff working in a remote location under different geographical area)
Common reasons of outsourcing

• Focus on core business activities
• Reduce cost – “do the same thing with less”
• Avoid headcount expansion
• Flexibility with respect to both organization and structure

Think about these questions before deciding to outsource a business function or capability

• Is this a core function for the organization?
• Does this function require specific knowledge, process and staff that cannot be replicated externally?
• Can this function be performed by another party for the same or lower price, with the same or higher quality, without any risk induced beyond the organization’s risk appetite?
**Outsourcing has its benefits, drawbacks and risks**

### Possible benefits
- Economy of scale
- Leverage on service providers’ experience with a wider array of skills, tools, techniques and methodology
- Well defined specifications and better deliverable quality (as a result of having formal contractual agreements)
- Less likely to induce scope creep (as service providers are sensitive to changes which can be time and resource consuming)

### Possible drawbacks and risks
- Service degradation, not meeting SLA
- Loss of key personnel
- Fraudulent act by disgruntled employees
- Loss of flexibility to change (as everything is bounded by contract)
- Loss of control on information security
- Non compliance to regulatory requirements, e.g. data privacy violation
- Offshore-specific risks, e.g. cultural difference
Risk reduction options in outsourcing

- Establish measurable and shared goals and rewards
- Use multiple suppliers for the balancing of power
- Perform regular reviews and benchmarking
- Establish contract change control mechanism
- Make the scope of services modular in the contract and include provisions to consider as many contingencies as possible
- Implement short term contracts with flexibility to extend
- Conduct due diligence with the supplier to confirm the baseline initially set by the supplier in its initial proposal and subsequent negotiations
- Form a contract management team and establish a strategic supplier management discipline
- Establish a change management program on the people side helping the affected staff to adapt to new working model
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Information security considerations in outsourcing

- Embed security considerations in the outsourcing contract
- Understand how the service provider will secure your data
- In case of offshore outsourcing, understand the legislation requirements regarding transborder flow of personal data
- Security awareness should include your service provider
- Last but not least, make sure you have the right to audit your service provider!
A checklist on the security considerations that should be taken in an outsourcing contract

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Wrap up

• Outsourcing is a tool to achieve cost reduction and operational efficiency, yet the business benefits will be jeopardized if the outsourcing risks are not managed properly.

• The risks of outsourcing should be identified and managed throughout the whole outsourcing project and contract lifecycle - obtain management oversight in managing the risks because they are business issues.

• Outsourcing contracts must address all relevant aspects of information security such that service providers are obliged to protect the information of their clients.
End of presentation

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