



## CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

### Outsourcing Policy

Last Updated  
December 6, 2017

**FINAL**



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## OUTSOURCING POLICY

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Effective date: December 6, 2017

### 1. Purpose and Scope

An outsourcing arrangement is an agreement between CLLAS and a service provider, whereby the service provider performs a business activity, function or process that could be undertaken by CLLAS itself. CLLAS ultimately retains the responsibility for all outsourced activities.

The purpose of this policy is to document the following:

- The outsourcing philosophy;
- The procedures and processes to manage outsourcing risk;
- The due diligence process in the selection of service providers; and
- The roles and responsibilities with regards to outsourced activities.

This policy applies to all activities, functions or processes outsourced to external service providers that could otherwise be undertaken by CLLAS itself. The robustness of outsourcing risk management should be commensurate with the materiality of the arrangement.

### 2. Outsourcing Philosophy

CLLAS does not have employees and therefore outsources its management/operational requirements. This allows CLLAS to reduce its operating costs, leverage the expertise of external service providers, and continue to offer competitively-priced insurance coverage to its members.

Outsourcing risk is the risk that outsourced functions will not be appropriately fulfilled and will negatively impact CLLAS' operations, reputation or financial position. CLLAS minimizes this risk through building long-term relationships based on a careful selection process and monitoring of its service providers. In selecting its service providers, CLLAS strives to achieve a balance between expertise, service and reasonable cost.

A list of all outsourced operations is contained in Appendix 1 to this policy. All operations are overseen and managed by the office of the General Manager, which itself is overseen by the Chair of CLLAS. All outsourced functions are ultimately under the responsibility and oversight of the Board.

### 3. Materiality Assessment for Outsourcing Arrangements

The materiality of an outsourcing arrangement refers to the extent to which it has the potential to have an important influence on the operations of CLLAS. CLLAS would consider the following in assessing the materiality of its outsourcing arrangements:



- The impact of the outsourcing arrangement on the finances, reputation and operations of CLLAS;
- The ability of CLLAS to maintain appropriate internal controls and meet regulatory requirements;
- The cost of the outsourcing arrangement; and
- The degree of difficulty and time required to find an alternative service provider or to “in-source” the activity.

#### **4. Policies and Procedures to Manage Risks Associated with Material Outsourcing Arrangements**

The selection of service providers should be subject to due diligence, which may include examining service providers in light of the following factors:

- Experience and technical competence to implement and support the outsourced activity;
- Compatibility between CLLAS management and personnel of service provider;
- Financial strength;
- Business reputation, complaints, compliance and pending litigation;
- Internal controls, reporting and monitoring environment;
- Business continuity and contingency measures;
- Reliance on sub-contractors;
- Insurance coverage; and
- Service philosophy and business culture.

The due diligence process should also include an assessment of the strengths, weaknesses, opportunities and threats associated with the outsourcing arrangement. CLLAS should ensure that records necessary to sustain business operations and meet statutory obligations (e.g., subscribers’ agreement, audited financial statements) are readily available. Risk mitigation, including the due diligence process, should vary with the nature of the outsourcing arrangement.

#### **5. Outsourcing Arrangements**

The terms of each material outsourcing arrangement entered into by CLLAS should be documented in a written contract that addresses all elements of the arrangement. Appendix 2 outlines the key contractual provisions that should be considered for each outsourcing arrangement.

#### **6. Monitoring and Oversight of Material Outsourcing Arrangements**

CLLAS periodically monitors all material outsourcing arrangements to ensure that the service is being delivered in the manner expected and in accordance with the terms of the outsourcing contract and CLLAS’s outsourcing policy. The scope of the review is commensurate with the nature of the outsourcing arrangement.



## **7. Prohibited Outsourcing Arrangements**

CLLAS will not outsource the following activities to its external auditor:

- Any actuarial service, with the exception of the external review of the appointed actuary's work in accordance with OSFI Guideline E-15 where the peer reviewer may be an actuary working in the company's external auditor firm.
- Any internal audit service related to the internal accounting controls, financial systems or financial statements of CLLAS, unless it is reasonable to conclude that the results of the service will not be subject to audit procedures during an audit of CLLAS's financial statements.

## **8. Responsibility for Outsourcing Arrangements**

The Board is responsible for the following:

- Approving policies and procedures for the outsourcing of business activities, including the materiality criteria;
- Ensuring that the outsourcing of material business activities is carried out in accordance with risk management policies and practices of CLLAS;
- Approving the outsourcing agreements;
- Monitoring the performance of outsourced activities based on established performance targets;
- Reviewing the policies and agreements for sufficiency and relevance on an annual basis, or more frequently if circumstances warrant.

The General Manager is responsible for the following:

- Developing an outsourcing policy for Board approval;
- Implementing the outsourcing policy and any associated procedures;
- Communicating significant outsourcing risks to the Board;
- Maintaining a centralized list of all material outsourced business arrangements;
- Monitoring the material outsourcing arrangements on a regular basis and reporting to the Board on their effectiveness;
- Monitoring service providers, at least annually, on their ability to continue to provide the degree of service as stated in the outsourcing arrangement.

The external service providers are responsible for the following:

- Managing the day-to-day requirements as outlined in the service agreement;
- Achieving performance targets established by CLLAS, if any;
- Reporting to the General Manager as established in the service agreement, or more frequently if matters related to non-compliance or emerging risks are discovered.



## **9. Authority**

The Board has the authority to make revisions to this policy and to engage or terminate a service provider.

## **10. History of Modifications**

The outsourcing policy was first approved by CLLAS on December 6, 2017.

## APPENDIX 1

### CENTRALIZED LIST OF OUTSOURCING ARRANGEMENTS

Description of Outsourcing Arrangement	Service Provider Name	Main Contact(s)	Type of Arrangement	Expiry or Renewal Date of Contract	Arrangement Deemed Material	Contract in Place
General Management including brokerage, claims, financial accounting, regulatory, underwriting	Axxima Insurance Services	Patrick Mahoney Norma Ibbetson Ryan Durrell	Third Party	On-going	Yes	Yes
Actuarial Services	Axxima Inc.	Julie-Linda Laforce	Third Party	Annual Appointment	Yes	No
Investment Management	Martin, Lucas & Seagram Ltd.	Rowland Bell	Third Party	On-going	Yes	Yes
Reinsurance Brokerage	Miller Insurance Services	Mark Popple Graeme Lynch	Third Party	On-going	Yes	Yes



## **APPENDIX 2**

### **KEY CONTRACTUAL PROVISIONS**

Outsourcing contracts should address all issues applicable to managing the risks associated with each outsourcing arrangement, including as appropriate such items as the following:

- Nature and scope of the service being provided: This includes provisions that address the frequency, physical location, and content of the service being provided.
- Performance measures: This allows each party to determine if the commitments in the contract are being realized and may be tied to the service provider's compensation.
- Reporting requirements: These are to be included and must specify the type and frequency of information received from the service provider.
- Resolution of differences: A protocol for resolving differences is to be part of the contract, including provisions for the continuation of work while dealing with the dispute, time periods for resolution, rules under which the dispute will be dealt with and legal jurisdiction.
- Defaults and termination: The contract should specify what constitutes a default, identify remedies and, where appropriate, allow for the opportunity to cure the default in advance of terminating the agreement. The contract should define the termination provisions on behalf of both parties and their resultant obligations to minimize the likelihood of disruption to the business of CLLAS.
- Ownership and access: Ownership of all assets, both physical and intellectual property/data, related to the outsourcing arrangements should be clearly stated. Default should be ownership by CLLAS. Access rights to any data generated by the service provider on behalf of CLLAS should be clearly stipulated.
- Contingency planning: The service provider's arrangements to continue to provide the service in the event of problems that may affect the service provider's operations should be documented.
- Audit rights: Audit rights for CLLAS should be stated. CLLAS should have the right to evaluate, or have an independent auditor evaluate, the service provider.
- Subcontracting: The contract should set out any rules/limitations on subcontracting.
- Confidentiality, security and separation of property: These requirements should be set out in the contract, including which party has responsibility for protection mechanisms, the scope of the information to be protected, the powers of each party to change security procedures and requirements, which party may be liable for any losses that might result from a security breach, and notification requirements if there is a breach of security.
- Pricing: The pricing and terms of payment should be fully described.
- Insurance: The service provider should be required to disclose general terms and conditions of applicable insurance coverage and to notify CLLAS about significant changes in coverage. If appropriate, approval by CLLAS of material changes should be required.