

# How Can Outside Experts Help a Supervisor?

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NOVEMBER 2016



Global Affairs  
Canada

Affaires mondiales  
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# Contents

- Introduction.....2**
- Objectives .....2**
- Section 1: Why Use Outside Experts? .....3**
  - Dealing with Gaps in Internal Resources..... 3
  - Acting More Effectively and Efficiently ..... 3
  - Obtaining Information or Advice..... 4
  - Solving Problems ..... 4
  - Permanently Improving Organizational Effectiveness and Efficiency ..... 5
  - Building Capacity through Training and Development ..... 6
  - Some Potential Pitfalls ..... 6
- Section 2: Where Can Outside Experts Help?.....7**
  - Regulation and Supervision ..... 7
  - General Management ..... 8
  - Human Resources Matters ..... 8
  - Financial and Administrative Operations ..... 9
- Section 3: What Are Your Needs?.....10**
  - The Problem to be Solved..... 10
  - The Role of the Outside Expert ..... 10
  - The Qualifications Needed ..... 12
  - Other Factors..... 12
- Conclusions.....13**
- References .....15**
- Additional Readings .....15**

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## Introduction<sup>1</sup>

As a financial sector supervisor, you continually face a wide range of challenges, both large and small. Typically, supervisory institutions have sufficient staff with the necessary expertise to deal in a timely and effective manner with many of these challenges. However, seldom does any organization—no matter how large and well-funded—possess all the expertise needed to deal with every challenge. In such cases, organizations might turn to outside experts for assistance.

**This note provides guidance on dealing with some of the issues related to the use of outside experts by financial sector supervisors. It focuses on answering the question: how can outside experts help a supervisor?** A companion Toronto Centre Supervisory Guidance Note provides guidance on a related, follow-up, question: how can a supervisor manage outside experts?<sup>2</sup>

This note assumes that you have the legal power to use outside experts and a source of funds to pay for their services. The circumstances under which outside experts might be used can vary considerably. **Used appropriately, outside experts can significantly enhance your ability to meet supervisory objectives, sometimes at a lower cost than an internal solution. Conversely, they have the potential to drain your resources, while adding little value or even detracting from your progress.**

## Objectives

Supervisors should clearly understand their reasons for using outside experts in particular situations. The needs and goals should be well-defined, so that the right experts can be selected. Appropriate contractual arrangements can help to avoid misunderstandings about what is to be done, by when, and for how much. Of course, just as with staff, two-way communication with outside experts and regular assessment of their work will contribute to reaching the established goals.

The sections of this note cover the following aspects of using outside experts:

- Why Use Outside Experts?
- Where Can Outside Experts Help?
- What Are Your Needs?

This note will help you:

- Understand the reasons why a supervisor might use outside experts;
- Be alert to problems that might arise if outside experts are not properly selected and managed;
- Understand the ways in which outside experts might assist with the general management of the supervisory institution, personnel matters, operations, and regulatory and supervisory functions;
- Identify key questions that should be answered when defining the need for outside experts; and
- Be aware of criteria that can be applied when developing goals to be met by outside experts.

**This Toronto Centre Supervisory Guidance Note is designed to help guide you toward making appropriate choices when considering the use of outside experts in the context of your particular circumstances.**

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<sup>1</sup> This note was prepared by Michael Hafeman on behalf of Toronto Centre.

<sup>2</sup> See Toronto Centre Supervisory Guidance Note on “How Can a Supervisor Manage Outside Experts?”

## Section 1: Why Use Outside Experts?

**As a financial sector supervisor, you continually face a wide range of challenges, both large and small.** Typically, supervisors have sufficient staff with the necessary expertise to deal in a timely and effective manner with many of these challenges. However, seldom does any organization—no matter how large and well-funded—possess all the expertise needed to deal with every challenge. In such cases, organizations might turn to outside experts for assistance.

**An outside expert should provide skills, knowledge, and experience in a particular field.** The outside expert might be an individual or an organization, such as a consulting firm. The expertise might relate to anything within the scope of the supervisor's activities, including professional, technical, industry, regulatory, supervisory, management, or operational matters. Examples of the areas in which outside experts can assist and where such experts might be found will be provided later. But first, consider various reasons why an organization might use outside experts. They include the following:

- Dealing with gaps in internal resources;
- Acting more effectively and efficiently;
- Obtaining information or advice;
- Solving problems;
- Permanently improving organizational effectiveness and efficiency; and
- Building capacity through training and development

### Dealing with Gaps in Internal Resources

**In some cases, organizations simply do not have enough staff – perhaps, none – with the expertise needed to do what needs to be done.** This might be because the need is temporary or highly specialized, so it would not be practical to hire staff with such expertise. For example, a supervisor that is moving industry reporting from hard copies reporting to electronic submissions might need special expertise for a short time to design the electronic data interface.

**Gaps might also be ongoing in nature.** Such a gap might arise, for example, if the need for expertise is insufficient to justify hiring staff. This is particularly likely to happen if the supervisor is a small organization. For example, an insurance supervisor needs actuarial expertise, but with only a few insurance companies operating in its jurisdiction there is not enough actuarial work to justify employing a full-time actuary.

**Alternatively, there might be sufficient need to justify hiring staff but, for one reason or another, it is impossible to do so.** The expertise might be in short supply in the jurisdiction. For example, in many small or developing markets, there are no actuaries residing in the jurisdiction. Alternatively, individuals with the necessary expertise might exist in the market, but the level of compensation being paid by the private sector makes it difficult to attract them to supervisory positions. Or perhaps the supervisor faces a constraint such as a government-imposed hiring freeze.

Many supervisors use outside experts to deal with such temporary or ongoing gaps in staff resources.

### Acting More Effectively and Efficiently

**Sometimes, an organization has or could have sufficient expertise internally to act, but using staff might not be the most effective or efficient approach.** For example, experienced supervisors might be capable of preparing and delivering training for new staff on accounting issues particularly relevant to the

entities they will be supervising. However, their time might be better used in carrying out supervision and in mentoring new staff on the job. Using outside experts to prepare and deliver the training would enable this to happen. The outside experts might have expertise not only in accounting but also in training. Accordingly, this approach could both optimize the use of internal resources and result in better-trained staff.

**The use of outside experts might allow actions to be taken more quickly than they could be using staff resources.** They might be available at a time when staff are busy with other matters that cannot be easily rescheduled. It might also be because their specialization in an area of expertise enables them to complete the necessary tasks more efficiently. Specialization, sometimes accompanied by economies of scale, can also help to reduce costs.

## Obtaining Information or Advice

**Outside experts can serve as sources of information or advice.** They can provide information on a wide range of topics, for example, technical issues that arise in connection with supervision, comparative information on the costs of supervision and various jurisdictions, and compensation levels for various types of positions. Partly as a result of working with a variety of organizations, outside experts can be an excellent source of information about best practices. However, the need to protect the confidential information of other clients can sometimes limit their ability to transfer such knowledge.

**Advice goes beyond information.** It sometimes involves interpreting information in a context relevant to the organization, for example, providing a legal opinion on the extent to which supervisory powers can be exercised in a specific situation. Advice might also include recommendations on a course of action that is being considered. An objective outside opinion can be particularly useful if there are diverse views internally or if a wrong decision would have severe consequences.

## Solving Problems

**Outside experts can play a more significant role in solving problems, beyond just providing information or advice.** They might be involved in any or all of the three main stages of problem solving, as described in the Toronto Centre Supervisory Guidance Note on action planning:<sup>3</sup> assess the problem; develop a solution; and implement the plan. Outside experts can either take the lead or support you in the problem-solving process. Generally, the further the problem or its solution are from the day-to-day work of the organization, the more useful it can be for an outside expert to take the lead. As discussed below, there are many specific ways in which outside experts can help with the various stages of problem solving.

### Assess the problem

1. Describe the problem: you might be so focused on dealing with the symptoms that you do not have a clear picture of the problem. An outside expert can take a detached look at the situation and, drawing upon experience in similar situations, help to describe the problem.
2. Identify causes: an outside expert can bring a broader perspective, helping to identify factors outside your organization that are causing or have contributed to the problem. An outside expert might also be more willing than staff to raise concerns about internal causes—and staff might be more willing to share their views with an outside expert than they would be with management.
3. Understand effects: an outside expert might have insight into the effects of a problem on outward, upward, or inward stakeholders, or might conduct research to identify and quantify the effects.

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<sup>3</sup> See Toronto Centre Supervisory Guidance Series: “Action Planning Guide”.

4. Consider priorities: an outside expert can provide advice about the urgency of solving the problem and the potential consequences if it is not solved, as well as an objective opinion on the readiness of your organization to move toward a solution.
5. State the problem precisely: an outside expert can help to ensure that your problem is stated clearly and precisely enough to be understood and appreciated by key stakeholders.

### **Develop a solution**

1. Establish a goal: an outside expert can help to ensure that your goal is SMART – specific, measurable, actionable, realistic, and time-bound. As well, an outside expert might be able to provide ideas on measures of success and, based on experience, an objective assessment of realism.
2. Consider alternatives: an outside expert can provide ideas on alternative ways to solve your problem. Of course, some alternative solutions might involve the use of the same or other outside experts, so you should be alert to potential conflicts of interest.
3. Outline the plan: an outside expert should have experience in solving similar problems and, therefore, a good idea of the main steps involved.
4. Assess key stakeholders<sup>4</sup>: an outside expert might have insight into the objectives and concerns of particular key stakeholders, or the ability to obtain such information, for example, through interviews or a survey.
5. Detail the action plan: some outside experts specialize in planning and can provide both expertise and software tools to describe the various steps in the action plan, establish appropriate and internally-consistent timelines, and estimate the resource needs.
6. Evaluate the plan: an outside expert can help to identify the areas of risk in your plan and to prepare contingency plans to deal with these risks.

### **Implement the plan**

1. Sell the plan: an outside expert can help to prepare a communication plan and the supporting materials needed to secure approval of your plan.
2. Establish the governance structure: an outside expert can provide advice on an appropriate governance structure, drawing upon experience in similar situations.
3. Create the working plan: for a large and complex plan, the planning skills and software tools that an outside expert can provide are particularly important.
4. Manage the project team: an outside expert might be called upon to manage the project team, which could include people from both inside and outside your organization. Reasons for doing so could include the need for special expertise for a particular type of project, the need for a full-time project leader when no suitable candidate is available internally, or the desire to have a neutral leader for a project that affects various departments.
5. Provide accountability: an outside expert can help to prepare progress reports for presentation to those governing the project and other key stakeholders.

## **Permanently Improving Organizational Effectiveness and Efficiency**

**Outside experts can assist an organization in making changes that will permanently improve its effectiveness and efficiency.** Such changes might be made in response to a problem, for example, a backlog in the processing of license applications. They might also be made as part of a broader initiative to enable the organization to better meet its key objectives.

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<sup>4</sup> Key stakeholders are stakeholders with the power to hinder or help your plan.

**Improvements might involve changes to the structure, policies, procedures, and information technology systems and tools of the organization.** Some outside experts specialize in effecting particular types of changes, for example, supervisory methodology or information systems.

**Significant improvements often require significant changes to how people do their jobs – or even to their roles and responsibilities.** This can create resistance, even to changes that people recognize as being sensible. To achieve a successful outcome, it is important that the process of change be managed proactively and sensitively.<sup>5</sup> Some outside experts specialize in helping organizations manage change.

## Building Capacity through Training and Development

**Organizations often use outside experts to help them build capacity through training and development.** Financial sector regulation and supervision can be complex and challenging. A wide range of expertise is needed to carry out these responsibilities, as well as to keep the organization running smoothly.

**Outside experts can assist in the identification and assessment of needs and the design of training and development programs. They can also assist in the delivery of such programs.** This might involve conducting seminars and workshops, providing on-the-job training, or serving as a mentor.

The programs might be designed to build capacity in various areas, including the following:

- Regulatory and supervisory issues;
- The operations and products of regulated entities, such as credit assessment and risk management;
- Professional matters, such as accounting and actuarial practices;
- Operational skills, such as the use of software tools; and
- The management of people, plans, and budgets.

There are outside experts that specialize in each of these areas.

## Some Potential Pitfalls

**As noted, there can be many good reasons for a supervisor to use outside experts, but there are also some potential pitfalls.** However, if they are not used appropriately, outside experts can represent significant costs while generating little in terms of benefits. In fact, they might even do damage to the organization.

Some potential pitfalls to be aware of include the following:

- A lack of responsiveness to the needs of your organization;
- Services that are unsuitable in terms of cost, quality, or timeliness;
- The proposal of generic solutions unsuited to your situation;
- Gaps or inconsistencies in the information or advice provided;
- Advice that your organization and its managers cannot implement;
- The creation of disruption, for example, through reorganization or downsizing; and
- The achievement of results that are positive in the short term but unsustainable over the longer term

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<sup>5</sup> See Toronto Centre Supervisory Guidance Note on “Managing the People Aspects of Supervisory Change” for guidance on managing change.

**These potential pitfalls can be avoided by clearly defining your needs, carefully selecting the outside experts, documenting the terms of the relationship through an appropriate contract, and actively managing the relationship.** The third section of this note will help prepare you to define your needs, while a separate Toronto Centre Supervisory Guidance Note focuses on the issues of selecting, contracting, and managing the relationship with outside experts.<sup>6</sup> However, before doing so, the next section provides some more examples of the areas in which outside experts can help a financial sector regulator or supervisor.

## Section 2: Where Can Outside Experts Help?

**The first section looked at reasons why an organization might use outside experts. This section takes a further look at areas where outside experts can help a financial sector regulator or supervisor.** Some areas relate specifically to the regulatory and supervisory responsibilities of the organization. Others are generic in nature, in that they are relevant to many types of organizations, not just supervisors. Such areas include general management, personnel issues, and operational matters.

### Regulation and Supervision

**Outside experts can assist in the development and implementation of the regulatory and supervisory frameworks.** Regulation involves establishing the requirements and setting related expectations for the operation of the regulated entities. Supervision involves assessing their actual behavior and financial situation and acting to deal with concerns. These functions require policy decisions, the development and documentation of methodologies and procedures, and their implementation. Outside experts can assist in each of these areas.

**Policy development.** In policy development, the ways in which outside experts can assist include the following:

- Help the supervisor to perform a self-assessment against international supervisory principles;
- Identify actions that can be taken to improve observance of international supervisory principles – for example, clarifying supervisory objectives, as discussed below – and help to prepare related action plans;
- Develop proposals for amending legislation or guidance and help to communicate them to stakeholders; and
- Prepare draft legislation and guidelines.

**Methodologies and procedures.** The ways in which outside experts can assist in the development and documentation of methodologies and procedures include the following:

- Assist in designing an appropriate risk-based supervisory methodology and in developing a related implementation plan; as discussed below, the work might extend to providing assistance in managing the change;
- Preparing supervisory procedures and operational manuals;
- Develop reporting requirements and financial analysis tools for assessing regulated entities;
- Prepare questionnaires and assessment criteria for use in the on-site inspection of various activities; and
- Develop licensing procedures and related application forms.

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<sup>6</sup> See Toronto Centre Supervisory Guidance Note on “How Can a Supervisor Manage Outside Experts?”.

**Implementation of supervision.** Outside experts can assist in supervision in many ways, some of which can be useful even to large and well-resourced supervisors. Examples include the following:

- Provide independent valuations of the assets or liabilities of a regulated entity;
- Supplement staff in the on-site inspection of particular activities, such as investments and lending;
- Assist in the assessment of complex capital instruments;
- Serve as the temporary administrator of a troubled entity;
- Perform a forensic audit of an entity suspected of carrying out inappropriate transactions; and
- Prepare an industry-wide analysis of best practices in the management of a particular risk.

## General Management

**Clarifying supervisory objectives.** The internationally agreed core principles for financial sector supervision highlight the importance of having clearly-defined objectives. Supervisory mandates and objectives should, ideally, be set out in legislation. Sometimes, however, legislation provides only a minimal definition. For example, it might simply state that the supervisor is responsible for administering the relevant legislation. A supervisor could seek assistance from an outside expert to clarify or expand upon the legislated objectives, to increase their usefulness in guiding the work of the organization.

**Translating strategy into action.** Every organization should have a strategy for reaching its objectives and plans for translating the strategy into action. Outside experts can assist in a variety of ways, including the following:

- Facilitating workshops with the board, management, and staff to explore alternatives;
- Developing a planning methodology and guiding management in its use;
- Providing information on relevant environmental factors;
- Performing benchmarking against international standards and other organizations; and
- Conducting research to assess the satisfaction of stakeholders with the organization's past performance in meeting its objectives and responding to their needs.

**Managing change.** The guidance of outside experts on strategy and planning can be particularly useful if an organization is undergoing significant change, for example, in the case of an integrated supervisor that is being created by merging several sectoral supervisors.

Such changes can also create the need for assistance in creating appropriate governance mechanisms and organizational structures. An outside expert might work with the board to clarify its mandate, develop terms of reference for its committees, and design an appropriate departmental structure for the organization.

Organizational and other types of changes, such as the adoption of a risk-based supervisory approach, can be unsettling to staff and challenging to implement if staff are not accustomed to exercising or supervising the exercise of judgment. Outside experts can assist management in dealing with major changes in a manner that increases their acceptance by staff and minimizes disruption.

## Human Resources Matters

**The effective management of human resources is important to any organization. This is particularly so for organizations, such as supervisors, which provide services rather than producing products.** Without enough competent staff, it will be impossible for a supervisory institution to meet its

objectives. There are many aspects of human resources management that require special expertise or are subject to legal requirements. Accordingly, outside experts are often used to assist with such matters.

**Compensation programs.** Compensation programs, including both cash compensation and other benefits, should be sufficient to enable an organization to attract and retain competent staff. They should be fair and they must be affordable. They must also meet legal requirements and might be subject to collective bargaining. Outside experts can help in a variety of ways to design and administer compensation programs that meet these complex constraints, such as the following:

- Assist in preparing position descriptions and classifying positions into levels based on the knowledge and experience required to perform them and the level of responsibility attached to them;
- Provide information on the compensation paid by other reasonably comparable organizations, such as the regulated financial institutions, for positions at various levels; and
- Design pension and benefits programs.

**Recruitment and selection of staff.** Outside experts can assist in the recruitment and selection of staff. They can prepare advertisements of vacancies, identify possible candidates, interview applicants, and recommend a short list of people for consideration. Such services are particularly useful when people with the necessary skills are in short supply or, conversely, when there is likely to be many potentially qualified applicants to be screened. An outside expert can also help to safeguard against political interference in the selection process.

**Performance management.** Most organizations have policies and procedures designed to help manage the performance of their staff. They include the setting of objectives for each person and the periodic appraisal of their performance. Outside experts can help to design a performance management program appropriate for the organization.

As mentioned in the previous section, outside experts can assist in the training and development of staff. Unfortunately, even with the best training and management, not everyone performs in an acceptable manner. Outside experts can help management to deal with problem cases effectively and in accordance with legal and other requirements.

## Financial and Administrative Operations

**There are many financial and administrative functions that must be operating smoothly to enable a supervisor to carry out its work.** Office facilities must be in place, along with telephones, computers, and software tools. Staff must be paid and the necessary funds must be obtained and managed prudently. Financial and operational reports must be prepared for management and those to which the supervisor is accountable.

If the supervisor is part of a larger organization, such as a government ministry, some or all of these financial and administrative matters might be dealt with by such organization. To the extent they are not, or are not being dealt with in a timely and appropriate manner, the supervisor might seek the assistance of outside experts in doing so. Examples of the ways in which outside experts can assist include the following:

- Install financial management software and help to design management reports;
- Develop office management policies and procedures, for example, regarding travel expenses and procurement;
- Assist with the design and implementation of supervisory information systems; and

- Provide ongoing help to users in dealing with computer hardware and software problems.

## Section 3: What Are Your Needs?

**Before seeking the assistance of an outside expert, you should define as clearly as possible what you need the expert to do.** This is not always as easy as it may seem. Perhaps you are not entirely sure what the problem is and are looking for an outside expert to help diagnose it. Alternatively, you might know what the problem is but lack the expertise to fully appreciate what needs to be done to solve it. However, without having made some progress in defining your needs, your chances of success are slim. Drawing upon relevant elements of the Toronto Centre's action planning methodology can help you to define your needs.

### The Problem to be Solved

**If you have not already done so, you should begin by assessing the problem on which the assistance of an outside expert is needed.** As discussed in section 1, the five steps in the assessment process are: describe the problem; identify causes; understand effects; consider priorities; and state the problem precisely. As you work your way through these steps, consider whether you are comfortable with your level of understanding. If not, perhaps the first task of an outside expert should be to help you clearly define the problem.

**You should also think about causes, effects, and priorities from the perspective of your potential relationship with the outside expert.** What is causing you to consider the use of an outside expert? For example, are you seeking information or advice on a specific issue? Are you trying to cope with a temporary shortage of staff? Does your staff lack expertise in a particular area, which you would like them to develop?

**The potential effects of using an outside expert should also be considered.** What are the cost and time constraints? How might staff react? Will using an outside expert enhance or detract from the credibility of the supervisor?

**You will probably need to balance various priorities when using an outside expert.** Are you trying to achieve cost savings? Is the highest quality technical advice essential? Is solving the immediate problem more important than building capacity within your staff?

The answers to such questions will not only help you to understand the problem that needs to be solved but also prepare you to define what you want the outside expert to do.

### The Role of the Outside Expert

**The second stage of the action planning process is to develop a solution.** As discussed in section 1, the six steps in developing a solution are: establish a goal; consider alternatives; outline the plan; assess key stakeholders; detail the action plan; and evaluate the plan. If you have completed this stage, you are in an excellent position to define what you want the outside expert or experts to do. For each step in your action plan, you could decide what can be accomplished by staff and what assistance is needed from outside experts to complete the step in a timely and satisfactory manner. However, even if you are unable to develop a detailed action plan you should at least define the goal that you want to reach before attempting to define what you want outside experts to do.

**Then develop a SMART goal statement for the work of the outside expert.** Issues to consider for each of the criteria include the following:

- Specific – for example, do you want the outside expert to provide information, offer advice, develop systems and procedures, manage a project, train staff, or carry out supervisory tasks? Are you looking for assistance with a particular issue or ongoing support?
- Measurable – how will you know if the outside expert has done the job? For example, will a draft regulation have been produced, will ten staff have been trained on a specific skill, or will a new computer system be in use for capturing quarterly data from regulated entities?
- Actionable – will it be evident what sort of action you expect the outside expert to take? Do you expect the expert to take a prescriptive approach and deliver their best solution? Or are you looking for a facilitative approach, in which the expert will work with you and your staff to develop a solution?
- Realistic – is what you are expecting from the outside expert reasonable considering the available time and budget? Will internal constraints affect the work of the outside expert? For example, if the role of the outside expert will be to lead a project team, do the internal team members have sufficient time to devote to the project?
- Time-bound – when do you expect the outside expert to complete the work? Are there any interim milestones that must be met?

For example, consider a situation in which you are concerned that regulated entities in your jurisdiction are not doing an adequate job of asset-liability management. Your goal is to have appropriate requirements in place and be able to assess the quality of asset-liability management within 12 months. Your action plan includes making a preliminary assessment of current industry practices, enacting a regulation that sets out what you expect them to do, developing assessment tools, and training staff to perform assessments.

You have concluded that there is insufficient expertise in asset-liability management among staff to implement the plan. Therefore, you have decided to use an outside expert. You have defined the goal for the work of the outside expert as follows:

- Work with staff to conduct on-site interviews and make a preliminary assessment of industry practices within three months;
- Prepare a draft regulation that both conforms to international standards and takes local market constraints into consideration within six months;
- Work with staff to develop a detailed on-site questionnaire and risk-based assessment criteria within eight months; and
- Develop and deliver a training seminar for all staff in the supervision department, the success of which will be measured through a written examination, within ten months.

This is a very explicit goal statement, which is closely tied to the action plan. In fact, it goes a long way toward setting out the terms of reference for the outside expert. However, just as with your underlying action plan, it is worth considering your plan for using an outside expert from various perspectives before proceeding. For example, might an alternative mix of internal and external resources be less costly or better help to building capacity? Who are the key stakeholders that would be affected by the use of an outside expert and what might their concerns be? What could threaten your plan? For example, what might you do if no qualified outside expert is available to begin working with you until six months from now?

## The Qualifications Needed

**Once you have defined what you want an outside expert to do, you can consider what qualifications the expert would need to have to perform successfully.** Depending on the nature, amount, and timing of the work to be done, your needs might best be met by an individual outside expert or by more than one outside expert, for example, a consulting firm. In the former case, the individual outside expert should have all the necessary qualifications, while in the latter case, the outside experts should collectively have the necessary qualifications. Four aspects of qualifications should be considered: skills, knowledge, experience, and capacity.

**An outside expert might need a variety of skills to carry out the work.** Managerial skills are essential if the expert is to lead a project team. Planning and facilitation skills are needed to work with the management team on development of organizational objectives and strategies. Writing skills are important if the outside expert is to prepare draft legislation, policies, or procedures. Communication skills are essential if the expert will be assisting you in dealing with key stakeholders. Specific technical skills, such as the ability to design and develop computer systems, might be needed. Identify which skills are most important for meeting your specific needs. Also, consider whether you are likely to be able to find an individual outside expert who possesses all the essential skills.

**Knowledge can also come in many forms.** The outside expert might need knowledge in a particular profession, such as accountancy, actuarial science, or law. The necessary knowledge might be practical in nature, for example, regarding industry practices for managing credit risk. The existence of some types of knowledge can be indicated by professional designations, training certifications, or educational degrees. Other types of knowledge might be gained primarily through experience. What knowledge will be essential to meeting your needs? What additional knowledge might contribute to an even better outcome?

**Experience is important in several respects.** Through experience, an outside expert develops skills and acquires knowledge. Also, experience shows the areas in which an outside expert has applied skills and knowledge in practice. Wide experience can provide an outside expert with an understanding of alternative ways to accomplish similar objectives. Successful relevant experience provides a good indicator of the ability of an outside expert to meet your needs. Consider the types of experience that are most relevant to the ability of an outside expert to meet your needs.

**Depending on your needs, capacity can be a key consideration.** If you only need two days of work from a legal expert, capacity is unlikely to be a problem. However, if you need 18 person-months of system development work done during the next 6 months, it is obvious that an individual outside expert will be unable to meet your needs. Capacity in terms of financial resources might also be important. For example, if an outside expert is being retained to develop a computer system, the expert should have the resources to rectify any problems that might arise, compensate the supervisor for damages, and maintain the system on an ongoing basis.

**A clear understanding of the qualifications you are seeking will guide you in searching for and selecting an appropriate outside expert to carry out the work. It is important that you strike a reasonable balance.** On one hand, you want an outside expert with sufficient qualifications to create a high likelihood that your needs will be met. On the other hand, overly high expectations might unnecessarily limit your alternatives or increase the cost.

## Other Factors

**Confidentiality.** There might be other factors that affect your needs. One such factor, which is often critically important to supervisors, is confidentiality. An outside expert that will have access to

confidential information should be able to maintain its confidentiality. If not, the regulated entities and their customers could suffer significant harm.

**Objectivity.** If advice is being sought from an outside expert, objectivity will be essential. The outside expert should not have financial interests or relationships that would create conflicts of interest. For example, an outside expert who regularly consults to the industry association is probably not a good choice to advise the supervisor on potential changes to regulation.

**Political sensitivity.** Internal politics can affect the environment within which an outside expert will need to operate. If the situation is complex or contentious, you should seek an outside expert who is sensitive to such matters and capable of dealing with them while at the same time delivering the necessary services. Internal politics might also affect the acceptability of particular outside experts to various parties.

## Conclusions

As a financial sector supervisor, you continually face a wide range of challenges, both large and small. Typically, supervisory institutions have sufficient staff with the necessary expertise to deal in a timely and effective manner with many of these challenges. However, seldom does any organization—no matter how large and well-funded—possess all the expertise needed to deal with every challenge. In such cases, organizations might turn to outside experts for assistance.

There are various reasons why an organization might use outside experts. They include the following:

- To deal with temporary or ongoing gaps in staff resources;
- To enable actions to be taken more quickly, effectively, and efficiently than would be possible using staff resources;
- To obtain information or advice on a wide range of topics;
- To assist with solving problems, which might include involvement in assessing the problem developing a solution, and implementing the plan;
- To assist in making changes that will permanently improve organizational effectiveness and efficiency; and
- To build capacity through training and development.

However, if they are not used appropriately, outside experts can represent significant costs while generating little in terms of benefits. Potential pitfalls can be avoided by clearly defining your needs, carefully selecting the outside experts, documenting the terms of the relationship through an appropriate contract, and actively managing the relationship.

Outside experts can assist in many areas, some of which are relevant to many types of organizations and others that relate specifically to the regulatory and supervisory responsibilities. They include the following:

- General management issues, such as organizational objectives, strategies, governance, and change management;
- Human resources matters, such as compensation, recruitment, performance management, and training and development;
- Financial and administrative operations, such as financial reporting, computer and telecommunication systems, and office policies and procedures;
- Regulatory and supervisory policy development;
- Supervisory methodology and procedures; and

- Support in the carrying-out of supervisory activities.

Before seeking the assistance of an outside expert, you should define as clearly as possible what you need the expert to do and the qualifications required to do so.

- Begin by assessing the problem on which the assistance of an outside expert is needed. You should also think about causes, effects, and priorities from the perspective of your potential relationship with the outside expert.
- Review your action plan and, for each step, decide what can be accomplished by staff and what assistance is needed from outside experts to complete the step in a timely and satisfactory manner. Then develop a SMART goal statement for the work of the outside expert.
- Consider what qualifications the expert would need to have to perform successfully. Four aspects of qualifications should be considered: skills, knowledge, experience, and capacity.
- Other factors that might affect your needs include confidentiality, objectivity, and internal politics.

If you understand your reasons for using an outside expert, clearly define your needs, make a careful selection, properly document the arrangement in a contract, and actively manage the relationship, you will probably achieve a successful outcome. The use of outside experts can make you more effective and efficient—helping you to reach your supervisory objectives.

## References

Toronto Centre, 2015, “Action Planning Guide”, Supervisory Guidance Series, Toronto Centre staff and Michael Hafeman. <https://res.torontocentre.org/index.php/tc-supervisory-guidance>

Toronto Centre, 2016, “How Can a Supervisor Manage Outside Experts?”, Supervisory Guidance Note, Michael Hafeman. <https://res.torontocentre.org/index.php/tc-supervisory-guidance>

Toronto Centre, 2016, ““Managing the People Aspects of Supervisory Change””, Supervisory Guidance Note, Tom Koor. <https://res.torontocentre.org/index.php/tc-supervisory-guidance>

## Additional Readings

Cohen, William A., 2009, “How to Make It Big as a Consultant: 4th edition”, AMACOM, New York.

Although targeted to individual consultants, parts of this book are also useful to those who deal with them.

Basel Committee for Banking Supervision (BCBS), 2012, “Core Principles for Effective Banking Supervision”. <http://www.bis.org/publ/bcbs230.htm>

Core principles for banking supervision. Principle 2: Independence, Accountability, Resources and Legal Protection for Supervisors is particularly relevant to the use of outside experts (referred to as “external experts”). Their use is also mentioned in connection with Principles 10, 11, 18, and 27.

International Association of Insurance Supervisors (IAIS), 2016, “Insurance Core Principles”. <http://www.iaisweb.org/page/supervisory-material/insurance-core-principles>

Core principles for insurance supervision and the related assessment methodology. ICP 2 Supervisor and standards 2.11, 2.12, and 2.13 are particularly relevant to the use of outside experts.

International Auditing and Assurance Standards Board (IAASB), 2015, “Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements, Volume 1”. [http://www.ifac.org/system/files/publications/files/IAASB-2015-Handbook-Volume-1\\_0.pdf](http://www.ifac.org/system/files/publications/files/IAASB-2015-Handbook-Volume-1_0.pdf)

International Standard on Auditing 620: Using the Work of an Auditor’s Expert describes steps that auditors should take when making use of the work of an expert.

Wikipedia, 2016, “Management Consulting”. [https://en.m.wikipedia.org/wiki/Management\\_consulting](https://en.m.wikipedia.org/wiki/Management_consulting)