

How Can a Supervisor Manage Outside Experts?

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Introduction¹

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 a supervisor manage outside experts? A companion Toronto Centre Supervisory Guidance Note provides guidance on a related, preliminary, question: how can outside experts help a supervisor?²

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:

- How Can You Select an Outside Expert?
- What Should Be in The Contract?
- How Can the Relationship Be Managed?

This note will help you:

- Be aware of various sources of outside experts;
- Understand the processes that might be used when selecting outside experts;
- Establish criteria that can be applied when evaluating proposals from outside experts;
- Be familiar with the various types of contracts that might be used with outside experts;
- Recognize the key issues that should be dealt with in contracts with outside experts; and
- Understand how relationships with outside experts can be managed.

This note is designed to help guide you toward making appropriate choices when selecting and using outside experts in the context of your particular circumstances.

¹ This note was prepared by Michael Hafeman on behalf of Toronto Centre.

² See Toronto Centre Supervisory Guidance Note on “How Can Outside Experts Help a Supervisor?”

Section 1: How Can You Select an Outside Expert?

You should have a good understanding of your reasons for wanting to use an outside expert and a clear picture of what you need from the expert, before you begin the selection process.³ How can you identify outside experts that might meet your needs and make an appropriate selection? This section deals with these issues.

Selection processes can vary considerably. In some cases, the selection process might be simple and straightforward. For example, if the cost of the required assistance will be relatively low and a particular outside expert has successfully provided similar services in the past, you might be able to simply contact the expert and agree on the terms for another assignment. However, if your needs are complex, if the cost is likely to be high, or if you have not previously used an outside expert for this type of assistance, a more formal selection process would be appropriate. Accordingly, you should adapt the processes described in this section to your specific situation. Your objective should be to select an outside expert who will meet your needs at an acceptable cost, using a fair process that complies with any procurement rules, while limiting the overhead cost of the selection process itself.

Sources of Outside Expertise

There are many situations in which your needs might be met by an individual outside expert. Such experts might work for a large organization, such as a consulting firm, but many individual experts do not. They might work alone, in some cases partnering with other experts on specific projects. Sometimes they establish a legal entity through which they work and sometimes they do not. Individual outside experts can provide services of any type, subject to legal constraints; for example, the laws of some jurisdictions require that audit services be provided by a partnership. Examples of individual outside experts that might be used by a supervisor include the following:

- Retired staff of the supervisor, who might be willing to provide services under temporary contracts;
- Former staff of the regulated entities, for example, retired loan officers who might be interested in working several months a year as part of your on-site inspection teams;
- Former supervisors from other jurisdictions;
- Professionals, such as accountants, actuaries, and lawyers; and
- Functional specialists, such as human resources, information technology, management training, communications, operational efficiency, and change management experts.

Some organizations specialize in providing expertise in a particular area. If your needs are within their area of specialization, such organizations can be an excellent source of expertise. Examples include the following:

- Training and technical assistance organizations, such as the Toronto Centre;
- Professional firms, such as accounting, actuarial, and law firms;
- Consulting firms with industry specializations, such as banking, insurance, pensions, or securities;
- Consulting firms with functional specializations, such as human resources, information technology, strategic planning, and operational efficiency;
- Firms that develop, install, and support standardized or customized information technology systems, such as systems used to capture, store, and analyze supervisory information; and
- Think tanks.

³ If not, please refer to the related Toronto Centre Supervisory Guidance Note on “How Can Outside Experts Help a Supervisor?”

Outside expertise is also available from large, diversified firms. Such firms provide services in multiple areas of expertise, so they might be particularly useful if your needs span several such areas. Some large accounting and management consulting firms fall into this category. International institutions, such as multilateral development banks, might also provide access to a wide range of expertise, either directly or through their own networks of outside experts.

Identifying Outside Experts Who Might Meet Your Needs

Within the wide universe of outside experts, how can you identify those who might best be able to meet your needs? On one hand, you don't want to overlook an outside expert who might be ideal for your situation. On the other hand, if there are many outside experts who might meet your needs, focusing your search can make the selection process more manageable. Even if you are going through a formal selection process it is good to have some idea of which outside experts might be suitable, if only to ensure that they are made aware of your need for assistance.

You can focus your search by considering various aspects of your needs. For example:

- Are your current needs similar to those you had previously? If so, perhaps an outside expert who helped you previously, or someone similar, would be appropriate.
- What qualifications are required of the outside expert? Some individuals and types of organizations might have such qualifications, while others clearly will not.
- How much work is there to be done? Might the work be done by one or more individual outside experts, or is it necessary to limit your search to large organizations?
- How important is local knowledge versus an international perspective? For example, knowledge of local legislation and practices might be needed to deal with certain human resources issues, while an international perspective will be valuable if you are considering alternative supervisory methodologies.
- Does the work need to be done in a particular location? In some cases, all the work of the outside expert might need to be done on your premises. In other cases, the outside expert might never need to visit your premises, or might need to do so only periodically.
- Are your needs related to regulatory or supervisory matters? If not, outside experts who work with a wide range of organizations might be able to meet your needs. Such experts are more likely to be available locally, even in smaller jurisdictions, than those who specialize in financial sector regulation and supervision.

Networking and research. After considering such questions related to your needs, you might still have a long list of outside experts who could potentially meet your needs. Conversely, you might have no one at all on your list. In either case, it can be useful to undertake some networking and other research. Both processes can help you to identify outside experts and, sometimes, obtain information on how they have been able to assist others.

If your needs are ones for which an outside expert is likely to be available locally, sources of information might include:

- Directors, managers, and staff of your organization;
- Other outside experts you are using or have used in the past; they have networks of contacts and might be able to suggest other experts;
- Other supervisory institutions and government bodies in your jurisdiction;
- Industry participants, industry associations, and professional organizations; and
- Websites and business directories.

If you need to look outside your jurisdiction for an outside expert, additional sources of information might include:

- Supervisors in other jurisdictions, who you have dealt with on supervisory matters or have met at conferences or training programs, or who are members of the Toronto Centre Community;
- Training and technical assistance organizations, such as the Toronto Centre, AITRI, CARTAC, and East AFRITAC;
- Secretariats of regional and international supervisory organizations, such as the Basel Committee for Banking Supervision, the International Association of Insurance Supervisors, the International Organization of Pension Supervisors, and the International Organization of Securities Commissions;
- Sectoral specialists at regional and international financial institutions, such as the International Monetary Fund and the World Bank; and
- Networking websites, such as LinkedIn and Devex.

As a result of your networking and research, you should have a good idea of which outside experts—or sources of such experts—might be able to meet your needs.

Selection Processes

Having identified potential sources of expertise relevant to your needs, it is necessary to select one or more outside experts to assist you. Various selection processes might be used, depending on the situation and the applicable legal and administrative requirements. For example, sometimes different selection processes are used for small versus large projects, or for selecting individual outside experts versus firms of outside experts. Obviously, the process should facilitate the selection of an outside expert who will be able to meet your needs. But public-sector organizations, such as supervisors, have a broader responsibility to act in the public interest. Accordingly, their selection processes should be transparent, give qualified experts a fair chance to be selected, and ensure that the needs will be met at a reasonable cost. Also, to the extent possible, selection processes should be administratively simple.

In some situations, the selection process might be very simple. Perhaps you have a very clear picture of what you need done and have already identified an outside expert who you are satisfied can do it. For example, you might need someone to prepare and deliver training for staff—and a particular expert has successfully trained them on similar topics in the past. In this case, you could just seek agreement with the outside expert on the content, timing, and cost of the training program. However, although such a process has the advantage of simplicity, it lacks transparency and openness, and increases the risk that a better or less-costly outside expert has been overlooked. Accordingly, most organizations restrict the use of this approach, for example, to situations where the total cost is small or the need is urgent.

Most commonly, the selection process will involve requesting proposals from outside experts and evaluating their proposals against criteria related to your needs. There are many ways in which requests might be communicated, not all of which will be appropriate in every situation. They include the following:

- In person, or by telephone, email, or letter; and
- By advertising in the press, on your website, or through a government procurement service

Whatever the method of communication, the request itself should deal with the following issues:

- Needs – the services you are looking for (alternatively, you might state the problem, with a request that the outside experts propose their solutions) and when they are to be provided;
- Costs – acceptable forms of compensation and any constraints (for example, a maximum daily rate prescribed by the government);
- Significant requirements or conditions – qualifications, location, copyright, insurance coverage (the details can be dealt with in the contract, but issues that are likely to affect an expert’s willingness to submit a proposal or their eligibility to be considered should be identified); and
- Selection process – who to contact if there are questions, how to submit proposals, the proposal deadline, whether finalists will be interviewed, what criteria will be used, when decisions will be made, and how decisions will be communicated.

Supervisors, particularly those in developing markets, are sometimes able to access outside experts through the training or technical assistance programs of regional and international organizations.

In such circumstances, the supervisor will typically collaborate with the relevant organization to define the needs. Such organizations have their own processes for assessing the requests, securing funding, and selecting experts—who might be on staff or outside—to deliver the services. However, close cooperation between the supervisor and the other organization is essential to ensure that the needs are properly defined and the experts who are assigned or selected will be able to meet those needs.

Evaluating Proposals

Even if your needs seem simple and straightforward, the proposals that you receive from outside experts might not be easy to evaluate. Outside experts offer services, which are less tangible and more difficult to compare than goods. The experts will be delivering their services using different people and possibly using different approaches. The pricing structure and timing might differ from one proposal to another. Proposals from different outside experts might well be strong or weak in different areas. Accordingly, it is useful to have mechanisms in place to review the proposals, weigh their strengths and weaknesses, and arrive at appropriate decisions.

One such mechanism is to have specific criteria against which to assess the proposals. Some criteria might be considered minimum requirements, so any proposal which does not satisfy all such criteria would be rejected. Each proposal would be rated against each of the criteria, and weightings might be assigned to reflect the relative importance of the various criteria. The criteria and weightings should be appropriate to the situation and might well differ from one project to another.

The evaluation process should not be entirely mechanical, but should provide some room for judgement. This is not unlike the risk rating of supervised entities, which generally reflects not only assessments of specific areas of risk but also supervisory judgement about the overall situation of the entity. The involvement of more than one person in making the evaluations helps to ensure that all relevant factors are being fully and fairly considered. For example, if the outside expert will be working on a project, the project team might jointly evaluate the proposals, with the project leader presenting the results and the team’s recommendation to senior management for approval.

Although the specific criteria will differ according to the situation, the following questions are relevant to most situations:

- Does the proposal meet your needs? If not, and if this applies to more than one proposal, are your needs realistic and have they been clearly described?

- Have the services promised been clearly described? Do they meet the SMART test?⁴
- Which individuals will be providing the services and what are their qualifications? Will senior people be sufficiently involved?
- Is the pricing clearly described? What is included in the price and what will cost extra?
- Are there any aspects of the proposal that create significant risks to quality, timeliness, or cost?

Additional information can be useful. When defining your needs, you considered various aspects of the qualifications required: skills, knowledge, experience, and capacity. A proposal should provide information about the outside expert's qualifications in each of these areas. But many things can look better on paper than they turn out to be in real life. Therefore, it is often useful to supplement such information by considering your own experience with previous work of the outside expert, contacting others who are familiar with the expert's work, and having a discussion with or a presentation from the expert.

Making a Selection

It is easy to make a selection if your evaluation shows that a particular outside expert can fully meet your needs and others cannot. Often, however, this will not be the case. Even the best proposal might have some shortcomings that you would like the expert to remedy. Most outside experts are willing to discuss ways in which their proposals might be revised to better meet your needs.

The discussions and negotiations should be conducted in an ethical manner, with appropriate attention to confidentiality. For example, confidential information in one outside expert's proposal should not be disclosed to another expert. If your selection is conditional, for example, on the approval of your board, any conditions should be made clear to the outside expert.

Although you should not rush into a decision (unless, of course, the situation requires an immediate decision), neither should you draw out the selection process any longer than necessary. You have needs to be met and, generally, the sooner you can get on with doing so the better. Also, the best outside experts are often in high demand, so if you take too long to make a decision, their time might already have been committed elsewhere.

It is good practice to inform the other outside experts who submitted proposals that they were not selected. In some jurisdictions, this is done by publishing the names of those selected.

Section 2: What Should Be in The Contract?

Any organization that uses an outside expert should have a contract with the expert. The contract describes the arrangement between the parties. A written contract helps to ensure that the parties have a common understanding of the arrangement, which in turn helps to avoid disputes. Contracts can serve to protect the interests of not only the contracting parties but also other stakeholders. For example, a contract might require an outside expert to preserve the confidentiality of information about the supervised entities and their customers.

This section examines the various forms contracts might take and important issues that should be dealt with in contracts with outside experts.

⁴ SMART – specific, measurable, actionable, realistic, and time-bound. For more information, see the Toronto Centre Supervisory Guidance Series: “Action Planning Guide”.

Forms of Contract

Contracts with outside experts can come in various forms. Although verbal contracts might be legally enforceable, they are generally too informal in nature to be used with outside experts. Therefore, written contracts are almost always necessary. A contract should set out the terms of the arrangement and there should be an indication that the parties to the contract have accepted its terms. Acceptance is usually indicated by written signature, but the laws of some jurisdictions also allow for the use of electronic signatures.

Although formal contracts are often used, other types of written contract might also be appropriate, depending on the circumstances. They include purchase orders and letter contracts, either of which might be sufficient if the services to be provided are straightforward and low-risk in nature. In some situations, outside experts are contracted as temporary employees, on either a full-time or a part-time basis. The reasons for doing so might include legal restrictions on the use of outside experts by the supervisor, a desire to extend the legal provisions on confidentiality to outside experts, or requirements of employment law.

Parties to the Contract

Each contract should clearly specify the parties to the contract, as well as their respective roles and responsibilities.

In many cases, the contract will be between two parties: the supervisor (as a legal entity) and the outside expert. If the outside expert is a legal entity, you should ensure that the individual who accepts the contract is legally empowered to do so.

Sometimes, individual outside experts establish legal entities through which they do business. They might do so to enhance their credibility in the market, to protect personal assets from business liabilities, or to gain tax advantages. Although their reasons might be legitimate, you should be satisfied that contracting with the legal entity does not compromise your interests. For example, if the outside expert does not meet contractual obligations, does the legal entity have sufficient assets to compensate for any damages?

The individual signing a contract on behalf of a legal entity might not be the one who will be providing the services. If it is important to you that particular individuals provide the services, you should ensure that this is specified in the contract. The contract should also indicate what would happen if such individuals subsequently become unavailable, for whatever reason.

The contract should indicate whether the parties can assign or transfer any of their rights and responsibilities to others. For example, can an outside expert you have selected to develop a new supervisory data management system subcontract some of the work to others?

In some cases, the contractual arrangements can involve multiple parties and multiple contracts. For example, an international agency has agreed to provide technical assistance in three different areas of supervision. You have a contract with the international agency, which sets out the terms of reference for the work and your respective rights and responsibilities. The international agency, in turn, has separate contracts with three individual outside experts who will be delivering the technical assistance services. You should be satisfied that such arrangements adequately protect your interests. For example, do the contracts between the international agency and the individual outside experts include appropriate confidentiality requirements?

Services to be Provided

The contract should define the terms of reference for the services to be provided by the outside expert. To the extent relevant to your circumstances, the information in the contract should answer the following questions:

- What are the nature and scope of the work to be done? What are the objectives of the work?
- What outputs are to be delivered (for example, reports, draft legislation, recommendations)? By when are they deliverable?
- What are you obligated to do to support the work of the expert? For example, do staff need to be available to work with the outside expert on a project team?
- Where are the services to be provided?
- What are the nature and timing of communication between you and the outside expert?
- Can the terms of reference be changed once the contract is in force? If so, how can this be done?

In describing the services to be provided, the contract should strike an appropriate balance between specificity and flexibility. If the description is vague, the outside expert might reasonably be able to claim to have met the terms of reference—even if the services delivered fall far short of what you had envisioned! However, specifying the terms of reference in too much detail can make it difficult to adapt to changing circumstances and might also lead to higher costs, for example, if the expert can make additional charges for even minor items that were not explicitly mentioned in the contract.

Compensation for the Services

The contract should describe how, how much, and when the outside expert will be compensated for the services that will be provided. The forms of compensation most commonly used for outside experts include time-and-materials, retainer, fixed-price, and results-based. They are sometimes used in combination with one another to meet the objectives of the various parties in a particular situation. Some objectives might be shared by all parties to the contract. For example, it is generally in everyone's interests to fairly compensate an outside expert if the services provided fully meet the identified needs. However, if the outside expert has not fully met your needs but has nevertheless expended considerable effort in attempting to do so, the expert would like to be compensated for the work but you might want to pay only for the results achieved. Also, you might have a fixed budget to spend, so even if an outside expert provides valuable additional services, you might be unable to pay them. Therefore, it is important that an appropriate form of compensation be used.

The time-and-materials approach compensates the outside expert for the time spent and materials used in performing the work. The compensation for time is often expressed in terms of hourly or daily rates, which might differ by individual or job category. The compensation for materials might, for example, include a standard charge for administrative costs and itemized charges for travel costs. The time-and-materials approach is appropriate if your needs are closely tied to the use of the expert's time, for example, if the outside expert is to accompany your staff to on-site inspections. It can also be appropriate if it is difficult to estimate in advance the amount of time it will take complete a task, for example, if an outside lawyer is retained to assist in your efforts to have a director of a supervised entity formally declared by the court to be unsuitable. A variation of this approach is when an outside expert is retained as a temporary member of staff. The time-and-materials approach can provide significant flexibility, but it also requires that you have confidence in the ability of the outside expert to focus on your needs and to work with reasonable efficiency. Regular reporting by the outside expert of the time spent, the tasks undertaken and the results achieved is advisable.

A retainer is a contract under which an outside expert is compensated for providing services during a specified period, but the amount of compensation is not directly related to the time spent in performing the work. For example, a reinsurance specialist who has recently retired from working in industry might be retained to assist, as needed, in analyzing the reinsurance arrangements of insurers. The time required of the expert might be subject to an upper limit, but the expert would be paid the full retainer fee even if much less time was required during a particular period. This approach can be appropriate if your specific needs are difficult to predict, but if it is essential that a particular outside expert be readily available to assist when relevant needs do arise.

Fixed-price contracts define the amount that will be paid once the outside expert has met a specified need. This approach might be appropriate if the need can be clearly specified, the work required to meet the need can be estimated with reasonable accuracy, and satisfaction of the need can be easily measured. For example, a fixed price might be established for developing and delivering a five-day program to train staff on the assessment of market risk. If the work will extend over a lengthy period, the contract might provide for partial payments when specific milestones have been met.

A results-based, or performance, contract links the cost directly to the results produced by the outside expert. This approach might be appropriate if the results are quantifiable and are unlikely to be significantly affected by other factors. For example, an outside expert might be contracted to reconfigure the supervisor's telecommunication systems, with compensation equal to 25 percent of the annual savings achieved. As another example, an outside expert might be contracted to assist in the recruitment of a senior manager, with the expert receiving a fee equal to a specified percentage of the manager's annual salary, but only if the expert had identified the candidate; the contract might also provide that one-half of the fee will be paid when the manager is hired and the balance after the manager has completed six months in the position.

If the contract provides for the possible amendment of the terms of reference, it should also describe how the compensation would be adjusted. For example, a time-and-materials contract might require the outside expert to provide an estimate of the additional time and cost that would be incurred as the result of an amendment and require the acceptance of the estimate – perhaps, after negotiation – by the supervisor before the additional work is performed.

Other Issues

Contracts commonly deal with other issues in addition to those already discussed. The following are examples:

- Termination – the rights of either party to terminate the contract, the conditions under which they might do so, the termination process, and the compensation payable upon termination;
- Dispute resolution – the way disputes will be resolved, for example, the arbitration process and the applicable law, which might include liability limitations;
- Jurisdiction – the jurisdiction whose laws will govern the contract;
- Confidentiality – the protection of various types of confidential information, for example, information received by the outside expert on the supervisor, its staff, supervised entities, and their customers, and information received by the supervisor on proprietary methods and systems employed by the expert;
- Copyright – the need to obtain authorization to use previously-copyrighted information, and the rights to any materials developed by the outside expert in connection with the assignment;
- Ownership and control of working papers;
- Document retention requirements; and

- Errors and omissions – the extent of liability for errors and omissions, and the requirement to maintain insurance coverage against such liability.

Section 3: How Can the Relationship Be Managed?

To maximize the value of an outside expert, the relationship must be managed. A financial sector that is regulated but not supervised is unlikely to function as well as you might like. Similarly, if you think that once you have a contract with an outside expert you can just sit back and wait for the results, you will often be disappointed! You should monitor the progress of the work, assess its usefulness in meeting your needs, and deal with any deviations from the plan. Only by doing so can you help to ensure that the work of the outside expert will have the most significant positive impact on your organization.

Good, two-way communication helps to ensure a productive relationship. It often works best if someone in your organization is designated to be the main point of contact with the outside expert; if the expert is an organization, it should do likewise. Sometimes, because of the nature of the work being done by the outside expert, it is obvious who the main point of contact should be. If not, you should select someone who can help to enable the work of the outside expert, rather than being a barrier to progress. Consider what other responsibilities the main contact might be given, such as monitoring progress, and the extent of the person’s authority in dealing with the expert. For example, if you do not want the main contact to be able to request the outside expert to carry out additional work, such limitation should be clearly communicated. It can also be useful to designate someone to back-up the main contact.

The outside expert should communicate progress to you in a manner and frequency appropriate to the situation. For example, for a large, complex project, the contract might call for weekly written progress reports. For an outside expert you have been using for a long time and have confidence in, the communication might be less frequent and less formal. If the outside expert might be affected by your own progress, for example, on a project in which each party is responsible for completing particular action steps, the communication of progress should go both ways.

Deviations from or changes to the project plan or the terms of reference for the outside expert should be communicated and carefully managed. Delays in completing specific action steps might have a disproportionate effect on the overall schedule. For example, if an analysis is completed two days too late for a board meeting, the project might be delayed until after the next meeting—three months later. Changes to the terms of reference not only can cause delays but also can greatly increase the costs, for example, if work that has already been completed must be discarded or revised.

You should assess the work performed by the outside expert to ensure that it meets your needs. For example, if the outside expert is providing analysis and recommendations, are they reasonable and relevant to your situation? If the outside expert has prepared and delivered a training program, were the learning objectives achieved by the participants? Has the work been done in a timely manner? If you have any concerns, they should be communicated and dealt with promptly, instead of waiting until the work has been completed or payment is due. Concerns should also be dealt with fairly and constructively, with a primary objective of getting things back on track. Be prepared to recognize and deal with shortcomings within your own organization that might have contributed to the concerns. Of course, if you are satisfied with the work of an outside expert, they will always appreciate positive feedback!

In the end, 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.

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.

You should identify outside experts that might meet your needs and make an appropriate selection.

- Outside experts might be individuals, organizations that specialize in providing expertise in a particular area, or large, diversified firms.
- Focus your search by considering various aspects of your needs. Networking and other research can help you to identify outside experts and, sometimes, obtain information on how they have been able to assist others.
- The selection processes might depend on the situation and the applicable legal and administrative requirements. The process should facilitate the selection of an outside expert who will be able to meet your needs, be transparent, give qualified experts a fair chance to be selected, ensure that the needs will be met at a reasonable cost, and be as simple as possible.
- Selection processes often involve requesting proposals from outside experts and evaluating their proposals against criteria related to your needs. The evaluation process should not be entirely mechanical, but should provide some room for judgement. The involvement of more than one person helps to ensure that all relevant factors are being fully and fairly considered.
- Most outside experts are willing to discuss ways in which their proposals might be revised to better meet your needs. Discussions and negotiations should be conducted in an ethical manner, with appropriate attention to confidentiality.
- Although you should not rush into a decision, neither should you draw out the selection process any longer than necessary.

Any organization that uses an outside expert should have a contract with the expert, which describes the arrangement between the parties.

- A written contract helps to ensure that the parties have a common understanding of the arrangement, which in turn helps to avoid disputes.
- Various forms of contracts are used, such as formal contracts, purchase orders, and letter contracts. Outside experts are sometimes contracted as temporary employees.
- Each contract should clearly specify the parties to the contract, as well as their respective roles and responsibilities. Ensure that contracting with a legal entity does not compromise your interests. In some cases, the contractual arrangements can involve multiple parties and multiple contracts.
- The contract should define the terms of reference for the services to be provided by the outside expert. It should strike an appropriate balance between specificity and flexibility.
- The contract should describe how, how much, and when the outside expert will be compensated for the services that will be provided. The forms of compensation most commonly used for outside experts include time-and-materials, retainer, fixed-price, and results-based. They are sometimes used in combination with one another.
- Contracts commonly deal with other issues, such as termination, dispute resolution, jurisdiction, confidentiality, copyright, ownership and control of working papers, document retention requirements, and errors and omissions.

To maximize the value of an outside expert, the relationship must be managed.

- Good, two-way communication helps to ensure a productive relationship. Designate a main point of contact with the outside expert.
- The outside expert should communicate progress to you in a manner and frequency appropriate to the situation. Where relevant, the communication of progress should go both ways.
- Deviations from the project plan or the terms of reference for the outside expert should be carefully managed to avoid delays and excessive costs.
- You should assess the work performed by the outside expert to ensure that it meets your needs. Any concerns should be dealt with promptly, fairly, and constructively, with a primary objective of getting things back on track.

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.

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Additional Readings

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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

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