



Vendor Management Policy



**Management of 3rd Party
Vendor Relationships**

The contents of this Policy document are considered by Argo Group to be confidential and subject to Argo Group's written consent.

Document Control

Document Approval

Policy Review Date	Reviewed By	Approved By
April 15, 2020	Ian Macartney/Susan Comparato	Ian Macartney

Document History

Version No.	Revision Comment	Author	Document Date
1.0	Original Document	J. Harris	April 8, 2020

Associated Documents

Argo Group Enterprise Risk Management Framework
Argo Information Security & Cybersecurity Policy
Argo Group Outsourcing Policy & Procedures
Corporate Contract Execution Authority Guidelines
Argo Group's Automated Corporate Contract Development/Review Policy

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I. Vision & Mission Statement

Our **Vision** is to improve business results through mutually beneficial partnerships, programmatic performance analysis, vendor governance, reporting and continuous improvement.

Our **Mission** for managing vendors is to establish, maintain, monitor, and evaluate vendor relationships to reduce risks, contain and reduce cost, and achieve greater levels of collaboration in delivery of competitive advantages to the company.

II. Purpose

Argo relies on products, systems and services provided by a variety of vendors, including hardware and software vendors, marketing firms, technology and telecommunication services, support personnel, and consultants. It is the ultimately the duty of management to ensure:

- Each vendor relationship supports the overall business requirements and strategic plans.
- The business or functional leader has sufficient expertise to oversee and manage the relationship.
- The business or functional leader has evaluated prospective vendors based on the scope and criticality of the procured service and products.
- The risks associated with the use of the vendor are fully assessed and understood.
- The appropriate oversight program is in place to monitor contractual performance and risk mitigation activities.

III. Policy

This Policy applies to all Argo employees responsible for negotiating or executing contracts for third party vendors on behalf of an Argo Group (herein referred to as “Argo”) legal entity on or after March 1st, 2020.

IV. Enforceability

In accordance with the company’s **Vendor Management Governance Structure**, as delegated by the Argo Board of Directors and Argo Group Executive Committee, the Vendor Steering Committee will have the responsibility for enforcement of this policy.

V. Conflict Resolution

Conflicts, or perceived conflicts, with the policy will be presented to the **Vendor Steering Committee (VSC)** for resolution. Other policies will be secondary to this policy unless otherwise granted an exception/exemption.

VI. Exemptions/Exceptions

The policy recognizes that not all vendor relationships are highly critical, critical, important or represents a significant risk, or substantial financial impact to the company. Vendors meeting certain criteria will not be required to adhere to all components of this policy (**Section XI - Exempt Vendors**). In addition, requests for exemptions or exceptions to this policy can be submitted formally in writing to the designated chairperson of the **VSC**. Exemptions or exceptions approvals are made in writing by the VSC chairperson on behalf of the committee.

VII. Vendor Criticality

The vendor criticality should be viewed as how important the product or service is to the day-to-day operations of the company. Classifying vendors by criticality is an important step of a vendor risk management program. Specifically;

- **Strategic:** Strategic vendors are those that account for a considerable amount of business (60-80%), demonstrate loyalty to their partners (exclusivity, limited distribution), are easy to do business with, and provide both growth and profitability. They typically represent about 6-10 vendors. Examples: Secure24, SGS and Wipro
- **Preferred/Operational:** Operational vendors are those that provide services to Argo, managing the inner workings of our business so it runs as efficiently as possible. Whether the vendor provides products or services, the business unit owner has to oversee and closely monitor the vendor relationship. Examples: Microsoft and Oracle and AWS
- **Tactical:** These are vendors are important, but minimally impactful in comparison to strategic or operational vendors. Potentially high in spend, but short in duration. Examples: Gartner and Dell
- **Commodity:** Non-critical to the company’s operations, where if a break in the supply chain occurred, there would be little or no consequences to maintaining service levels and customer service. For example: Office Supplies.

The criticality for new vendors being on-boarded will be determined by the contracting party. All classifications for existing vendors will be annually assessed by the **VSC** as described in the **Vendor Management Governance** policy.

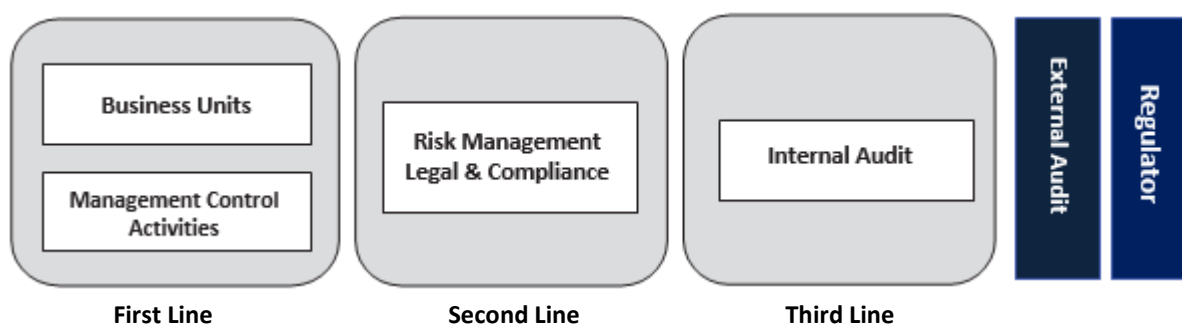
VIII. Vendor Risk Management Defined

Vendor Risk Management (VRM) is the process of managing risks associated with third party vendors. It's important to understand these risks, what they are, and how Argo can readily identify any issues, concerns, or constraints pertaining to these risks. Failure to mitigate and prevent these risks can result in significant financial loss, reputational damage, and/or legal/regulatory issues. As such, the following risks are to be thoroughly understood and assessed in regard to business and contractual relationships entered into with vendors:

- **Strategic Risk:** Risk of failing to implement or achieve planned business goals, objectives or initiatives. Inability to address the fundamentals required to execute the agreed strategy, as evidenced by deviations from business plans.
- **Compliance Risk:** Risks arising from violations of applicable laws, rules, regulatory mandates, and along with other issues, such as non-compliance of operational, and information security policies, procedures, and processes.
- **Operational Risk:** Risks from a failed system of operational internal controls relating to relevant policies, procedures, and practices. Specifically, failures associated with processes, systems or people.
- **Financial Risk:** Risks related to the financial condition of the third-party vendors, such as any “going concern” issues, or a vendor under the threat of liquidation in the foreseeable future.
- **Reputation Risk:** Risks of negative public perception and opinion, such as unethical business practices, data breaches resulting in loss of sensitive and confidential consumer information.
- **Technology Risk:** Risks from any number of information technology and information governance and security issues, including inadequate resources (hardware, software or manpower).
- **Country Risk:** Risks arising from the political, economic, and social landscape and other relevant events within a foreign country that can impact the services provided by vendors, ultimately affecting company operations.
- **Environmental, Social and Governance Risk (ESG):** Risks related to climate change impacts, environmental practices and duty of care, working and safety condition, respect for human rights, and compliance with laws and regulations.

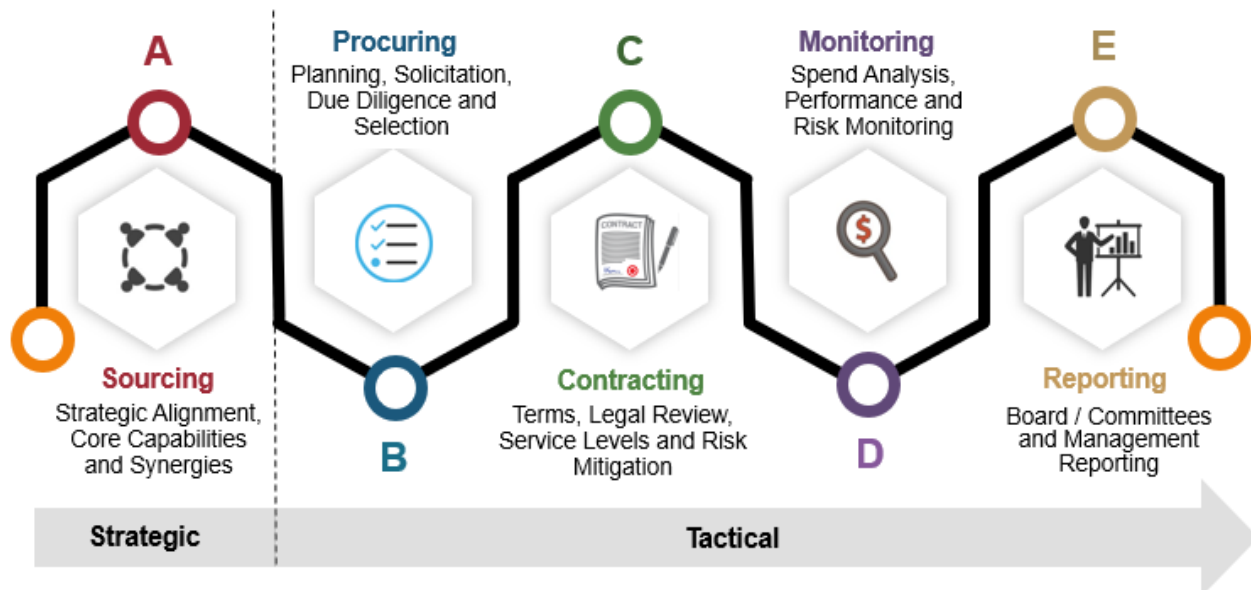
The VRM is monitored through the **Three Lines of Defence Model**. The model provides the structure and the assigned roles and responsibilities of parties to enhance the risk management. The underlying premise is that through the board of directors and management oversight, the three lines of defense ensures effective management of risk and control.

- First Line of Defence:** Argo vendor relationship owners and managers, in each function or business, are responsible for identifying, assessing and mitigating risk activities; and implementing controls consistent with Argo's adopted COSO internal control framework (Supported closely by the Head of Procurement).
- Second Line of Defence:** Corporate functions specializing in risk management, information/data security, legal and regulatory compliance assist in supporting the vendor risk management by monitoring and performing other oversight activities to ensure compliance with internal policies/external regulations.
- Third Line of Defence:** Internal Audit provides the Argo Board of Directors and Executive Management with reports assessing the design and operating effectiveness of risk management activities and internal controls of the vendor management process.



IX. Vendor Management Operating Model

The Argo Group **Vendor Management Operating Model** consist of the five stages that define the vendor management lifecycle.



A. Sourcing:

For Argo, strategic sourcing is decentralized within the business and functional areas. The Argo Executive Committee and direct reports are responsible for ensuring the Argo sourcing strategy is aligned to the company objectives. By reinforcing the focus on the core capabilities of the vendors, building long-term relationships and assuring the right vendor for the right sourcing objective helps create a synergy between the company and the vendors. The sourcing objectives below include, but are not limited to, the following:

- Maximize the value of the vendor spend and reduce cost
- Streamline the procurement process
- Obtain an expert understanding of our suppliers and the supplier market
- Build strong, trustworthy relationships with existing and new vendors
- Ensure vendor relationships comply with all internal policies and external laws and regulations

Also, critically important is the supplying vendor must be a cultural fit to the company if the contractual arrangement is substantial and requires significant resources.

B. Procuring

The procurement stage is where the initial relationship with many vendors begin. For all new Argo vendors (unless they meet an exemption), the contract sponsor will gather competitive bids from a minimum of **3** sources. A waiver of the procuring steps can be requested in favor of a single source vendor selection, but the business rationale must be approved by the VSC to mitigate the risk of potential or perceived conflicts of interest.

In most cases, the procuring stage will follow the four phases below. For the purposes of procuring, the Argo representative(s) leading this stage is referred to the '**contract sponsor**'.

1. Planning

During the planning phase, the requirements for qualified vendors are developed based on the products or services to be procured. These requirements will provide the basis for the relationship between Argo and the vendor regarding performance expectations, and how risks are identified, assessed, and managed.

In addition, the contract sponsor should consider the following:

- All parties directly or indirectly involved with the vendor or use the contracted services
- The subsequent supporting steps to facilitate the solicitation, due diligence, and selection

- The documentation needed to ensure that the service or products procured meet Argo's requirements
- Any technical expertise required to complete the procuring and on-boarding process

2. Solicitation

Solicitation is the process of notifying qualified vendors that Argo wishes to receive bids or proposals on the specified products or services. All solicitation documents should contain instructions to ensure the vendors submit an adequate response and ensure the process to collect and evaluate bids is consistent.

The solicitation will come in the form of a Request for Quote (RFQ) or Request for Proposal (RFP) and possibly include a Request for Information (RFI) to facilitate the creation of the RFQ/RFP. The level of detail will vary but, the proposal should describe the objectives, scope and nature of the work to be performed, expected service levels, the key performance indicators (KPI's) to be measured against, delivery timelines, change controls, financial penalties around poor service, a schedule of fees, the selection criteria and the procedures for requesting additional information.

3. Due Diligence

A due diligence must perform on one or more of the likely selected vendors. The depth of the due diligence may vary according to the relative importance of the vendor relationship, but it should cover the following areas:

Phase 1

- Existence and corporate history. Vendor's business history and market share for a given service.
- Qualifications, backgrounds and reputations of company principals, including criminal background checks where appropriate.
- Vendor's reputation and past performance with similar business partners.
- Financial Condition: Obtain the audited financial statements for review by Corporate Finance.
- Reputation. Review year-end financial statements for litigation disclosures, past and any pending litigation.
- Internal control environment. Consider reviewing audit reports, internal control evaluations and assessments of the third parties. If applicable obtain their most recent SSAE 16 report.
- Legal and compliance including any regulatory actions and/or anti-bribery corruption risk.
- Reliance on and success in dealing with third party service providers.
- Insurance coverage. Ensure that the vendor has sufficient coverage to insure against losses due to dishonest acts, and liability coverage for losses due to negligent acts in an amount of the potential exposure to risk.
- Ability to meet disaster recovery and business continuity requirements.

Pre-Contract Risk Assessment:

A pre-contract risk assessment will be completed by the Head of Procurement, leveraging the information collected from the RFP's, and due diligence. The criticality rating will be determined by the contract sponsor and based on the inherent risk rating.

Phase 2

The type of security surveys completed are driven by criticality and the inherent risk rating from the pre-contract risk assessment. The evaluation of risk will align to financial, operational, compliance/legal, strategic and information security risk factors (**Section 3 – Monitoring**). Criticality will also be the driver of the continuous risk monitoring frequency (**Chart 1**).

For new IT Vendors, the Head of Procurement will leverage the due diligence and pre-contract risk assessments conducted by the AVP, IT Business Management Operations.

Chart 1

Criticality	Inherent Risk	Security Surveys	Risk Monitoring Frequency
Strategic	High	*Core	Annually
Operational/Preferred	Medium	*Core	2 years
Commodity	Low	ABC	3 years

***Core** = Vendor Risk Profile, Data Privacy, Anti-Bribery Corruption (ABC). **Note:** additional surveys may be necessary based on the questionnaire responses or other risk factors.

Fraud Prevention and Detection: The Head of Procurement on a sample basis will review the vendor solicitation, bidding, and RFP process in order to ensure the integrity of the vendor selection process.

4. Selection

The vendor that can best meet Argo’s business needs, operational requirements and has completed necessary due diligence is notified of the final selection. The contract sponsor can begin the contract process in Cobblestone.



Cobblestone:

Cobblestone Contract Management Software, a cloud-based document repository, is Argo Group’s contract management system. Its main purpose is to manage its inventory of contractual agreements. The system allows the company, and interested parties, the ability to organize contracts, oversee permissions, employ document version control, search for existing contracts, track contract status, and proactively engage vendors with an appropriate lead times before contracts expire.

Note: Ultimately, all risk relevant documentation, i.e. due diligence documentation, security surveys and the pre-vendor risk assessment will be maintained in the Cobblestone contract management system. At the inception of this policy, risk relevant documentation MUST be housed and maintained in the Jordan Lawrence system.

Consider the technology requirements and integration activities as part of the vendor onboarding process.

C. Contracting

The contracting stage is the management of the Argo’s contracts from contract initiation, negotiation, execution and the administration of the agreements. The vendor contract translates policies and expectations into specific enforceable terms and conditions to ensure compliance, while maximizing performance and reducing risk. The contracts between Argo and its vendors must clearly specify in a level of detail commensurate with the scope and risks of the service provided all relevant terms, conditions, responsibilities, and liabilities of both parties.

All contracts must be reviewed in accordance with Argo Group’s Automated Corporate Contract Development / Review Policy or any successor policy (the “Contracting Policy”). Legal will review each contract to ensure the terms and conditions are appropriate for the service or products being provided.

Contract Administration:

Contract Storage and Records Management: All Contracts must be stored in Cobblestone and accessible only to those with a business need. The contracts will be maintained in a central repository in accordance with Argo’s record management retention policy to ensure compliance with regulatory document retention requirements.

Expiry, Modify, and Renew: Contracts approaching their expiration date will be flagged for review the greater of 60 days or the minimum notice period to amend, modify, extend or renew the original agreement. It is the responsibility of the contract sponsor, not legal, to complete any due diligence and/or vendor risk assessment prior to renewal. If the contract is not modified, extended or renewed before the expiration date, the aforementioned contracting process is repeated.

Termination: Termination may be required when a contract expires, the terms of the contract have been satisfied, in response to contract default, or due to changes in business strategy. In the event of planned or eminent termination, the contract sponsor should consider the following:

- Capabilities, cost, resources, and time frame to transition the activity
- Risks associated with data retention and destruction, IS connections, access controls or other transition issues
- Handling of any joint Intellectual Property rights developed during the course of the relationship
- Any possible reputational risk arising from contract disputes or performance issues

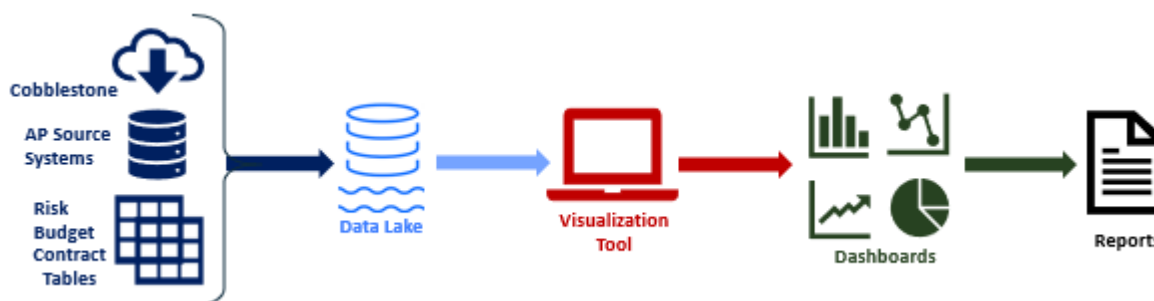
D. Monitoring:

A key component to a robust vendor management policy is the ongoing monitoring of vendor spend, performance and risk. Argo vendors are monitored through:

1. Vendor Spend Analysis:

Data Driven Reports: Data is the driver for quantifying the overall spend and measuring the vendor expenses. The diagram below illustrates the flow of data from source systems, to data lake, to visualization, to dashboarding, to management reporting. The following is not an exhaustive list, but the basic types of spending analysis to be provided by the Head of Procurement.

- Total spend by vendor
- Spend by category
- Different vendors, same spend
- Different spend, same vendors
- Spend by risk type / rating
- Total spend v. budget
- Spend for vendors (contract/no contract)
- Number of transactions by category
- Spending by Company, Division, Department
- Spend by vendor type



Spend analysis benefits include:

- Advance data-driven strategic sourcing
- Full visibility of spend
- Identify cost savings opportunities
- Align and streamline procurement process
- Manage vendor risk and “rogue” spending
- Enhance vendor performance
- Improve vendor relationship management
- Leverage spend data across business units

2. Vendor Performance:

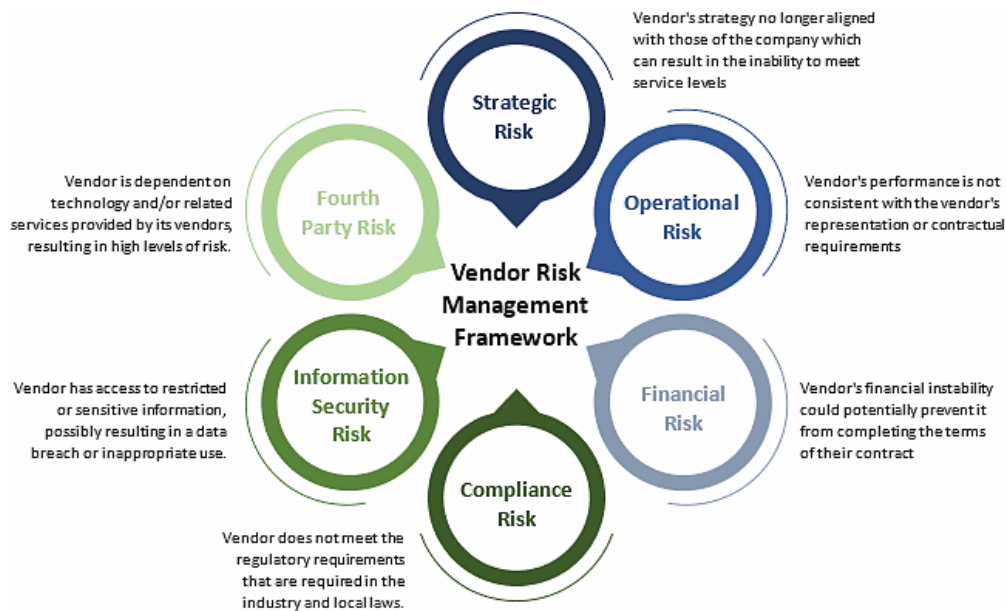
Performance Audits: The Head of Procurement will assist the business owners or relationship managers with the development of a performance audit program to assess the vendors compliance with agreed upon service levels and quality of services. The scope of review, frequency and the supporting documentation needed will vary depending on the complexity of the vendor relationship and the product or service being provided. In general, the scope of the performance audits will include the following:

- Vendor Relationship Oversight
- Service Level Agreements
- Quality of Services
- Contract Terms
- Billings and Disbursements

3. Continuous Risk Monitoring:

Under the COSO Internal Control Framework, continuous monitoring is defined as “the process and technology used to detect compliance and risks associated with an organization’s environment.” The Vendor Risk Management Framework divides the risks into six areas; Strategic, Operational, Compliance, Financial, Information Security, and Fourth-Party Risk. The responsibility for risk monitoring newly onboarded vendors as well as existing vendors will fall to the aforementioned 1st line of defence, i.e. Head of Procurement, business owners and vendor relationship managers.

The frequency and extent risk monitoring activities are determined on an annual basis for vendors based on the criticality classification and risk. The vendors with a higher degree of criticality and risk will receive a more stringent risk monitoring process and on a more frequently basis. See **Chart 1** above.



For high residual risk scenarios, mitigating control activities are required to reduce the risk to a “managed” or an “acceptable” level. Remediation actions and activities will be tracked by the Vendor Management Office.

E. Reporting:

The Head of Procurement will provide reports on vendor spend, risks and performance monitoring activities. The reporting will be organized based on the internal constituents as described in the **Vendor Management Governance** document.

For IT Vendors, the AVP of IT Business Management will partner with the Head of Procurement on consolidation of the results for technology vendors.

Vendor Executive Committee (EC):

The EC will receive group level quarterly reports and as requested, detailed reports to specific executive areas of responsibility.

Vendor Steering Committee (VSC):

The VSC will receive all the reports provided to the BOD and EC, plus monthly spend, performance, and risk reporting.

Relationship Manager:

Targeted reporting to assist the business relationship owners managing of the individual vendor relationships.

Ad Hoc Reporting:

On-demand reporting, primarily issue driven (typically, matters related to compliance or fraud).



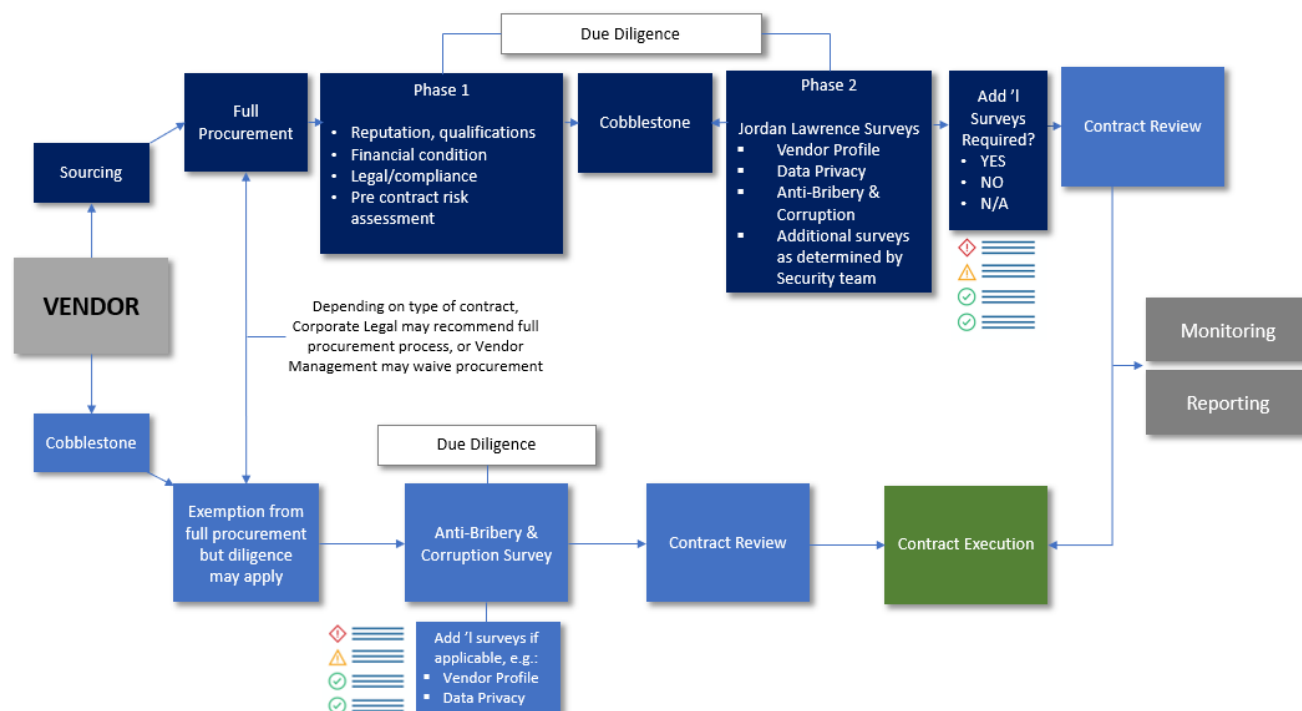
The reporting structure is consistent with the associated **Vendor Management Governance** document and is intended to support strategic decisions, ensure executive awareness, assign management accountability and promote continuous improvement of vendor relationships.

X. Applicability

This policy is written to be applicable to multiple jurisdictions¹ and provide the guiding principles to assist the company in its compliance with all international regulatory bodies. While this policy is specific to vendor relationships, other third party relationships, like agency, broker, delegated underwriting, claims and policy administration, etc. are governed by a similar set expectations, such as; proper 3rd party supervision, monitoring against performance service levels, continuous risk monitoring, audits to ensure compliance with laws and regulations, protection of sensitive and confidential information, maintenance of continuity plans and periodic evaluations of the appropriateness by company's executives.

XI. Vendor Management Workflow

Below is the end to end workflow of the Vendor Management process.



Vendor Management Policy Exceptions:

The contract sponsor must determine if the Vendor Management policy is applicable. Some vendor relationships are exempt from the procurement process, meaning, the agreements can be entered directly into Cobblestone for contract review.

- Non-Disclosure Agreements and confidentiality Agreements
- Special and Charitable Event Agreements (Hotels/Restaurants)
- Hotel, restaurant and transportation agreements
- Marketing and communication agreements of a short duration (less than 90 days)
- Engagements with attorneys, lawyers, solicitors, barristers, arbitrators, umpires, and other similar parties
- Purchase Orders for existing contracts
- Charitable Contributions
- Vendors (total spend less than \$25K)
- General agents, program managers/administrators, brokers, agents and producers
- Third-party claims administrators
- Reinsurance intermediaries
- Banks, investment managers and investment funds
- Insurers and reinsurers

¹ Financial Conduct Authority (FCA) SYSC 8.1 General Outsourcing Requirements. Bermuda Monetary Authority (BMA) Guidance Notes on Outsourcing for "relevant licensed entities" (RLE). [what is this footnote related to?]