Vendor Management Policy

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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
2.0	BPE Revisions	J. Harris	December 15, 2020
2.1	Vendor Criticality Definitions	A.Ippolito	June 23, 2021
2.2	Align to New Procurement Function	K. Johnson	October 11, 2021

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 Review Policy

Table of Contents

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 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 engaged in negotiating or executing contracts for third party vendors on behalf of an Argo Group (herein referred to as "Argo") legal entity on or after April 15th, 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**).

VII. Vendor Criticality

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

- **Strategic:** Vendors whose product and/or service play a long-term, strategic role in Argo's performance. These vendors are chosen for their unique capabilities and pose significant risks for Argo if they do not perform as expected. Typically, one strategic vendor is chosen for a specific need.
- **Preferred:** Vendors whose products and/or services play an important role in Argo's functioning and are chosen based on their capabilities and differentiators in the market. These vendors can be potential operational risks for Argo if they do not perform as expected. Argo may have multiple vendor relationships of a similar type in the Preferred category.
- **Tactical:** Vendors that provide products and/or services that augment existing Argo services. These products and/or services can contribute to key or critical activities yet can be replenished quickly in the marketplace mitigating risk of non-service. Non-performance of these vendors would not have a material impact on Argo's results.
- **Commodity:** Vendors that provide non-critical products and/or services. These services do not contribute to key or critical activities and can be replenished quickly with little impact to Argo's results. Products and services of these

vendors are differentiated by price and availability in the market. Non-performance of these vendors would have an immaterial impact on results.

Criticality is to be determined at onboarding of the vendor upon analysis by the Vendor Relationship Manager and the Vendor Management Office. 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:

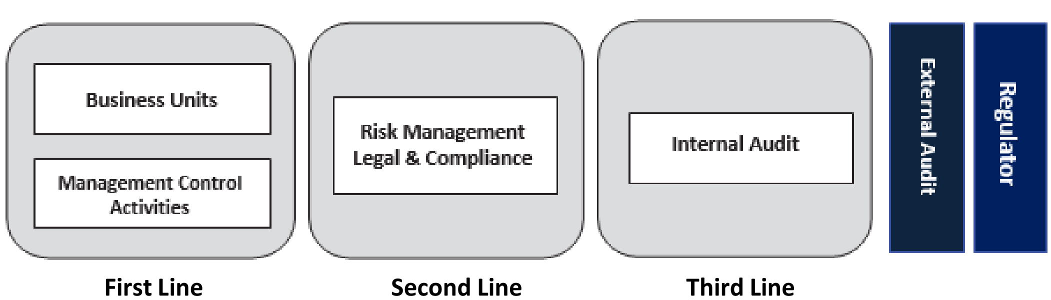
- **Strategic Risk:** Risk of failing to implement or achieve planned business goals, objectives or initiatives. Inability to address the fundamentals required to execute the agreed strategy, as evidenced by deviations from business plans.
- **Compliance Risk:** Risks arising from violations of applicable 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 Defense 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.

A. First Line of Defense: 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 VMO).

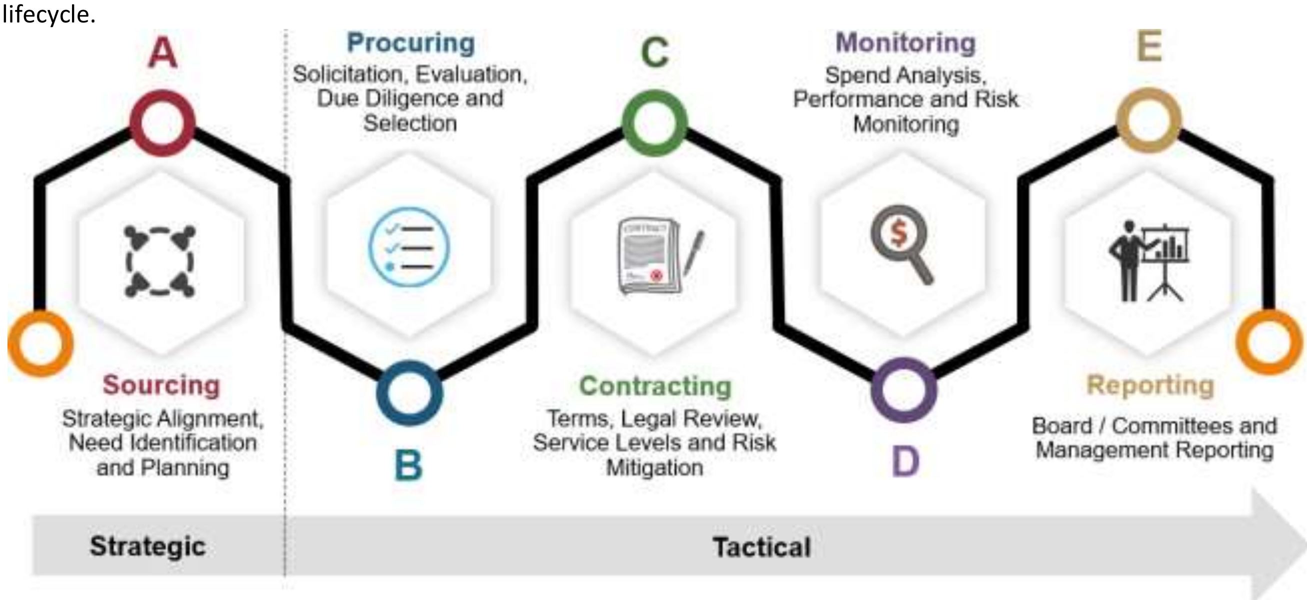
B. Second Line of Defense: Corporate functions specializing in sourcing and procurement, risk management, information/data security, legal and regulatory compliance assist in supporting the vendor risk management by monitoring and performing other oversightactivities to ensure compliance with internal policies/external regulations.

C. Third Line of Defense: 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 centralized in Procurement. Procurement is responsible for ensuring the Argo sourcing strategy is aligned to the company objectives, and works with the business and functional areas on identifying and planning for vendor products and services. 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

Sourcing Planning

During sourcing planning, the requirements for qualified vendors are developed based for the services or products 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.

The following is considered during planning:

- Engagement of 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 (e.g. IT aware of this sourcing and procurement early in the process)

B. Procuring

The procurement stage is where the initial relationship with many vendors begin. For all new Argo vendor engagements, Procurement will work with the business or function lead representative (“Vendor Relationship Owner”) to determine the need for a competitive bid in the market. If one is needed, Procurement will lead the process with the Vendor Relationship Owner to engage an appropriate amount of vendors in the competitive bid process.

In most cases, the procuring stage will follow the four phases below.

The Argo business or function representative who is managing or leading the needs of the business in relation to the Vendor’s services provided is referred to the ‘**Vendor Relationship Owner**’.

1. 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.

2. Evaluation

An evaluation criteria should be created to determine how the vendors will be scored or rated. While this policy does not provide a standard or required evaluation template, the criteria should include those factors that are deemed most important for the achievement of the business objective(s) and fulfillment of the business requirements.

3. Selection

All the preparation of identifying the business objectives and service requirements, solicitation of bids, and review of proposals should be sufficient to make a final vendor selection.

At this point, the most important considerations have been discussed in the evaluation of potential vendors. Other questions in the selection process that may be useful to consider:

- Did the solicitation process raise any potential red flags in the future?
- Is the vendor a good culture fit for the organization?
- Can the vendor selection be evidenced as being fair, unbiased and free of any conflicts of interest?

4. Due Diligence

Due diligence must be performed on the selected vendor prior to the contracting phase. This includes risk surveys to assess core and ESG elements of the vendor relationship. The depth of the due diligence may vary according to the relative importance and type of the vendor relationship.

The Vendor Management Office (VMO) will coordinate the due diligence to ensure that all pertinent parties receive the necessary information to execute a contractual agreement with the vendor. The due diligence covers all areas of risk using the OSO ERM Risk Framework categories of:

C. Contracting

The contracting stage is the process of contract initiation, negotiation, execution and the administration. 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. Procurement will provide guidance and negotiate the required business terms for all vendor contracts.

All contracts must be reviewed in accordance with Argo Group's Corporate Counsel guidelines on vendor agreements and signed by an authorized signer. Legal will review each contract to ensure the terms and conditions are appropriate for the service orproducts being provided.

Contract Storage and Records Management:

All Contracts must be stored in Cobblestone and accessible only to those with a business need. It is the responsibility of the Vendor Relationship Owner to ensure the final executed contract is uploaded into Cobblestone and maintained in accordancewith Argo's record management retention policy.

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. All renewal contracts must be reviewed with Procurement prior to any renewal discussions being held with vendors. It is the responsibility of the **Vendor Relationship Owner**, not legal, to complete any due diligence and/or vendor risk assessment prior to renewal.

Termination:

Termination may be required when a contract expires, the terms of the contract have been satisfied, in response to a contract default, or due to changes in business strategy. Again, the decision to terminate a contract agreement rest with the **Vendor Relationship Owner**.

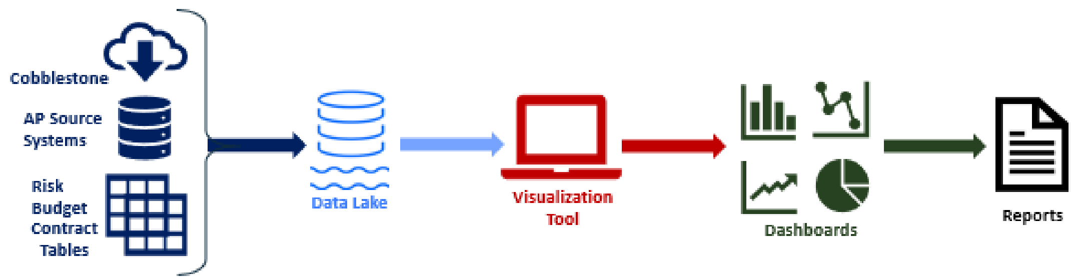
D. Monitoring:

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 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 VMO.

- Total spend by vendor
- Spend by vendor classification
- Different vendors, same spend
- Different spend, same vendors
- Spend by risk type / rating
- Total spend current v. prior year
- Spending by Company, Division, Department
- Spend by General Ledger



2. Vendor Performance:

Performance Audits: The VMO will assist the vendor 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 (ERM Framework +2): 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 defense, i.e. VMO, business owners and/or vendor relationship managers.

The continuous 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 evaluation and on a more frequent basis.

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 VMO will provide reports on vendor spend, risks and performance monitoring activities. The reporting will be organized based on the needs of the internal stakeholders described in the **Vendor Management Governance policy.**

Vendor Executive Committee (VEC):
The VEC will receive group level reports prior to each committee meeting or as requested.

Vendor Steering Committee (VSC):
The VSC will receive all the reports provided to the VEC, plus any reports necessary for the committee to review and opine on. (e.g. spend, performance, and risk reporting).

Vendor Relationship Manager:
Targeted reporting to assist the business vendor relationship manager with monitoring the individual vendor relationship.

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 jurisdictions[1] 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 of 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.

[1]Financial Conduct Authority (FCA) SYSC 8.1 General Outsourcing Requirements. Bermuda Monetary Authority (BMA) Guidance Notes on Outsourcing for "relevant licensed entities" (RLE).

XI. Policy Exceptions

Vendor Management Policy Exceptions:

The **Vendor Relationship Owner** must determine if the Vendor Management policy is applicable. Some vendor relationships are currently exempt from the procurement process, meaning, the agreements can be entered directly into Cobblestone for Legal 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 similar parties
- Purchase Orders for existing contracts
- Charitable Contributions
- General agents, program managers/administrators, brokers, agents and producers
- Vendors (total spend less than $25K)
- Commissioned agents, brokers, agents and producers
- Third-party claims administrators
- Reinsurance intermediaries
- Banks, investment managers and investment funds
- Insurers and reinsurers