

ROYAL BANK OF CANADA LAW GROUP DEMAND MANAGEMENT PRACTICES FOR EXTERNAL COUNSEL

Purpose of Demand Management (DM)

The purpose of practicing DM is to introduce a greater responsibility and awareness of fiscal prudence on the part of anyone who engages outside counsel for any RBC matter.

The Practice Of DM

Through the use of such activities as **tiering, budgeting, staffing** and **insourcing**, RBC Law has been able to consistently achieve its individual functional group targets of cost containment while also helping RBC in its ultimate goal of increasing RBC's operating leverage.

How Is DM Measured

DM cost savings are tracked monthly and quarterly. Using such DM activities as **tiering, budgeting, staffing** and **insourcing**, a determination is made as to what the net savings will be to RBC by having implemented the DM practice or activity. The cost savings report (which includes details of the activity and a simple cost savings tabulation) is then submitted to the Law Firm Manager who tracks and reports quarterly cost savings data to the Transformation Management Committee.

Examples of DM Practices

1. INSOURCING

The practice: A member of the Law Group handles a matter internally rather than retaining outside counsel. In some cases, it may be appropriate not to use any legal resources for the matter, internal or external.

The objective: Avoid the expense of external counsel through the use of internal resources.

Why we do it: To manage our costs more effectively.
Leverage and add to our internal expertise, based upon our knowledge of the business and its objectives.
Capture the work product internally for future reuse.

How to do it: Analyse nature of work, expertise required, risk involved, level of experience required and availability of internal resources.

Does internal counsel have special expertise related to the matter?
Is it likely that in-house counsel can resolve the matter quickly?
By doing the work internally, can we acquire valuable knowledge and experience that we can re-use for the client's benefit?

What you need to track: Situations where you can quantify cost savings from having moved work in-house, or decided against any legal involvement, for work which was recently/historically performed by external counsel.

Is it recurring, or a one-time saving?

Examples: The business has previously amended contract terms for a product in response to legislative change through outside counsel, at a cost of approximately \$X per amendment. I have handled the amendment myself allowing the business to save the expense of the outside law firm.

Work on case summaries, affidavits of documents and undertakings was moved to our in-house law clerks to reverse the recent trend of outsourcing significant amounts of this work to external firms.

2. TIERING (Selecting the right firm)

The practice: Select a firm within the appropriate tier of a matter category to handle the matter that can provide the most cost effective legal result.

The objective: Optimal matching of the complexity and risk of the matter to the expertise and expense of the law firm.

Why we do it: Generate cost savings for RBC by using the least expensive firm, without compromising quality.

How to do it: Analyze nature of work, expertise required, risk involved, level of experience required. Consult colleagues, business units and rate sheets for the lawyers and law firms under consideration. Market check on quote if quote from the chosen law firm seems high (see “Obtaining and Enforcing Quotes” below.)

What you need to track: Examples of situations where you can quantify cost savings from having moved work to a less expensive law firm.

Is it recurring, or a one-time saving?

Examples: Normally would use firm X for transactions involving A, B or C issues. New transaction type came up involving normal and manageable risks. Firm Y, which is on average \$100 per hour cheaper, could handle it well. Possible repeat transactions will lead to recurring savings. Savings per transaction estimated at \$X to \$Y.

3. STAFFING - Selecting the right lawyer/paralegal or team

The practice: Select a lawyer/paralegal within a firm to handle the matter who can provide the most cost effective legal result. This is also important where a team of outside lawyers will be used, in which case the internal and external lawyers should agree on a staffing model for the matter, balancing expertise, cost and efficiency.

The objective: Optimal matching of the complexity and risk of the matter to the expertise and expense of the lawyer/paralegal.

Why we do it: Get the lowest priced legal professional who can efficiently and effectively do a good job on the matter.

How to do it: Analyse nature of work, expertise required, risk involved, level of experience required. Discuss staffing with the law firm or individual lawyer at the beginning of each file. Ensure that the proposed staffing (including proposed allocation of work among senior/junior legal resources) is appropriate to the issues/risks identified. The lowest hourly rate will not necessarily lead in all cases to the lowest cost: efficiency and expertise also matter.

What you need to track: Examples of situations where you can quantify cost savings from having moved work to, or selected, a lower cost professional or otherwise achieved the same result at a lower cost through staffing allocation.

Is it recurring, or a one-time saving?

Examples: Normally would use a mid-level partner for transactions involving A, B or C issues. New transaction came up involving normal and manageable risks. Senior Associate, who is on average \$200 per hour less expensive, could handle it well. Savings for the transaction estimated at \$X to \$Y.

The law firm proposed that too senior a resource do the bulk of the work. I pushed the firm to apply a staffing model that pushed aspects of the matter to more junior resources, resulting in savings of \$X.

The law firm proposed that the work be done by an associate who had limited knowledge of the subject matter. I suspected this would be too much of a “learning experience” for the associate and insisted that the firm either discount the associate’s time or have the work done in fewer hours by a more senior lawyer.

4. BUDGETTING - Obtaining and enforcing quotes

The practice: Obtain an estimate from the firm which you have selected to handle a matter which involves legal fees estimated to be in excess of \$10,000. If the quote seems high, obtain quotes from one or two other firms. In any event, if in your view, the estimated fees for the matter will likely exceed \$30,000, obtain one or more competing quotes for the matter, including a detailed budget and staffing model. Once a quote is accepted, ensure that the quote is honoured on an interim and post-mortem basis.

The objective: Obtain cost certainty. Avoid overruns. Control and more effectively manage legal costs by enforcing financial accountability.

Why we do it: Get the lowest cost provider who can do a good job on the matter.

How to do it: Analyse nature of work, expertise required, risk involved, level of experience required. Consult colleagues, business units and rate sheets for the law firms from whom to request quotes. The quote should include a detailed staffing plan. Review all legal bills, including the final bill, for reasonableness in terms of services rendered, compliance with staffing plan and compliance with budget.

Refuse to pay fees in excess of the estimate unless prior approval for such excess has been given.

What you need to track: Examples of situations where you can quantify cost savings from having held a law firm to a quote, or we paid less on a matter as a result of moving work to a firm which provided a better quote.

Is it recurring, or a one-time saving ?

Examples: Normally would use firm X for transactions involving A, B or C issues.

- 1) If you obtain a quote from Firm X which is unsatisfactory and obtain a quote from Firm Y which is superior, then
- (2) Move the work to Firm Y

In such case, the cost savings in moving the work based on the quotes would be tracked.