



# Leveraging the Ops Function to Tame the External Spending Beast

By Jennifer J. Salopek

In 2012, global insurance giant AIG created a single global resource to meet the legal services needs of the Property Casualty Claims function and its non-claims legal department. This was no small undertaking: AIG works with more than 1,200 individual law firms on behalf of more than 90 million insured clients in 90 countries. The company has more than 25 approved law firm panels, each dedicated to a specific function or line of business. Management of legal services for that purpose is AIG's largest legal expense, amounting to more than \$2.4 billion annually, explains Aaron Katzel, head of AIG's Global Legal Operations Center.

Insurance companies differ from other businesses in their use of legal services. "In addition to all the traditional legal needs of a large, global company, AIG's single biggest legal requirement will always involve managing litigation on behalf of our insureds in every jurisdiction around the world," Katzel explains.

In addressing these unique challenges, however, the company could also leverage its unique assets: an enormous amount of data and a tremendous amount of purchasing power. In designing the LOC, Katzel and his senior management team leveraged those assets to deliver on the group's core mission: providing the tools and services to consistently achieve the best legal outcomes at the most compelling overall value. They focused on two key elements: building a multidisciplinary team with diverse areas of expertise, and designing scalable processes and technology to allow that team to effectively deliver their services across AIG's huge footprint. Innovative transformation occurred in four major areas:

**Process and information excellence.** The Process & Information Excellence team helps the legal department understand legal spend and outcomes and make better decisions. Its members developed industry-leading, in-depth legal analytics capabilities and legal information systems

for managers across five major claims lines of business — an effort that took two years. Self-service dashboards now allow users to create individualized reports and compare law firm performance across similar matter types using real-time data.

**Firm management.** This group manages AIG's relationships with more than 1,200 approved law firms, setting rates, terms and membership of its law firm panels. To do this, they designed a uniform, competitive, transparent process to set the rates and terms, and use SAP's Ariba online sourcing platform to conduct automated requests for information among firms interested in serving on the company's panels. That information is uploaded into a global database that provides the Firm Management group with consistent information on all the firms. To set each panel's rates, the LOC holds competitive pricing exercises in which peer group firms submit bids in online RFPs or reverse auctions conducted in real time.

“The team has automated workflows and reporting supported by Onit's business process management platform, and uses DocuSign to support its contracting needs with law firm panel members. By employing competitive, market-driven tools, the LOC was able to realize reductions in hourly panel rates ranging from 2 to 32 percent.”

“We have a process that sets a market price for legal services,” says Katzel. “We leverage that process because we have relatively predictable demand, and it gives us the confidence to be able to tell our clients that not only will their insured claims be handled by a panel of the best qualified lawyers, but they will [also] get good value under their policies because we’ve set pricing through a transparent, competitive process.”

**Legal vendor management.** A third group within AIG’s LOC managed approved non-firm vendors for such services as e-discovery, predictive coding, document review and court reporters; these vendors, once qualified, participate in online reverse auctions to set base pricing. The team leverages non-firm specialist providers for such services

**Alternative fee agreements.** The LOC has transformed the way AIG pays for legal services with a new alternative fee arrangement program. Team members looked closely at the legal processes required for specific lines of business and legal functions in order to design repeatable AFAs that could be used in high-frequency, low-complexity matters, and different structures appropriate for low-volume, high-complexity work. AIG now has AFAs with 46 firms in 12 states, and in one Property Casualty Claims line of business, more than 70 percent of outside counsel assignments are made under fixed fees. Katzel estimates savings of 20 percent compared to historic hourly costs.

“**In all, the creation of the LOC and its innovative work has saved AIG more than \$200 million in legal costs in 2014 alone.**”

as e-discovery collection and hosting and legal document review, through initiatives to obtain legal services more efficiently and more effectively than under traditional models. By thinking creatively which elements of standard legal processes could be performed reliably outside of law firms, and pricing those services competitively through RFP’s and reverse auctions, AIG reduced the cost of legal discovery from 40 to 60 percent.