



National Association of Insurance Commissioners

# Fiscal Impact Statement

<b>DATE SUBMITTED:</b>	<b>APRIL 7, 2021</b>
<b>NAME OF INITIATIVE:</b>	<b>SOLVENCY WORKPAPER SOFTWARE MODERNIZATION – IMPLEMENTATION PREPARATION PHASE</b>
<b>REGULATOR/BUSINESS SPONSOR:</b>	<b>ELECTRONIC WORKPAPER (E) WORKING GROUP</b>
<b>NAIC STAFF SUPPORT:</b>	<b>DAN DAVELINE, DIRECTOR, FINANCIAL REGULATORY SERVICES</b>
<b>REQUESTED INITIATIVE START DATE:</b>	<b>MAY 1, 2021</b>
<b>ANTICIPATED COMPLETION DATE:</b>	<b>MARCH 31, 2022</b>
<b>TOTAL REVENUE EXPECTED (2021):</b>	<b>\$0</b>
<b>(2022):</b>	<b>\$0</b>
<b>TOTAL EXPENSE REQUESTED (2021):</b>	<b>\$327,280</b>
<b>(2022):</b>	<b>\$122,720</b>
<b>TOTAL CAPITAL REQUESTED (2021):</b>	<b>\$0</b>
<b>(2022):</b>	<b>\$0</b>

## I. Executive Summary:

This Fiscal Impact Statement requests funding to prepare for the implementation of an upgraded solvency workpaper system, made necessary by the pending end of life of the current platform at the end of 2023.

The current software application, TeamMate AM, is used by state insurance departments to document regulatory monitoring work such as financial analysis, financial examinations, and market conduct monitoring. The application is currently licensed by the NAIC and sublicensed to 52 user states/jurisdictions and various third-party consultants. The application is also partially hosted on the NAIC’s Citrix server to facilitate coordination of projects across states to promote efficiency and to support certain states with limited IT resources. As such, it is a critical component to solvency regulation and requires attention in 2021 to ensure a continuation of services with minimal disruption.

This phase of the project will prepare for the implementation of a replacement application and address the future of application hosting. The implementation preparation phase will develop all regulatory use cases, prepare test environments for regulators to review and evaluate

performance, and take all other necessary steps to ensure a successful deployment into a production environment by the end of 2022.

TeamMate AM will be discontinued effective December 2023, which effectively creates a deadline by which the project needs to be completed. As certain regulatory monitoring projects can run 12+ months in length, the transition to a new application must be completed by 2022 to avoid challenges with the end-of-life deadline. To that end, the Electronic Workpaper (E) Working Group has been working to select a replacement product based on an assessment of application features as well as hosting functionality.

The requested expense of \$450,000 is based on vendor estimates adjusted by NAIC staff based on the scope of the work expected to be performed in 2021. This expense is a one-time cost to transition to a new software application and does not cover ongoing licensing or hosting fees.

After the transition period, annual licensing and cloud fees are expected to be incurred starting in 2022 and are anticipated to be between \$1.5 and \$1.8 million, subject to the take-up rate for cloud hosting and ongoing negotiation with the vendor. Both fees would be charged on a per-user basis (cloud fee is ≈\$400; licensing is ≈\$300). Of these fees, a similar licensing fee is already being paid by the states/jurisdictions using the existing software platform. The cloud fee would be an additional fee (compared to fees being paid right now by states on the existing platform) for states choosing to access the shared hosting environment but could eliminate the need for local IT support services in this area.

These fees could be increased depending on:

- Security or contractual requirements imposed on the vendor's application and/cloud environment
- Data overage fees for states that choose to host archived files in the cloud environment

While states will have the option to host the software on-premise, the NAIC recommends that states strongly consider participating in a centralized vendor SaaS hosting model, as it provides cost benefits and promotes coordination efforts across states.

## **II. Key Deliverables:**

In discussions with the vendors, the term "use case" has been used to refer to the software architecture created for each regulator use. Each regulator function to be performed by the selected software will require a use case, including such functions as financial examinations, financial analysis, and market conduct examinations. Such use cases are not available in any "out of the box" software solution and will therefore need to be developed and configured within the selected software solution.

1. Therefore, a key deliverable for 2021 will be the development of full use cases for each of the key regulator functions expected to be housed within the new software. Use case development involves the configuration of software settings, development of process workflow, incorporation of handbook procedures, development of customized reports, and so forth.
2. Another key deliverable will be the development and setup of a new host environment for use in regulator review and testing of the use cases. Test cases and pilot project results from the test environment will allow for additional updates to be made as needed prior to the launch of the production environment.

3. The project will also include a training webinar series to prepare regulators in understanding the navigation and functionality of the new software.

### **III. Financial and Organizational Impact:**

The project requires \$450,000 in consulting services from the selected vendor for assistance in software configuration and use case development, the setup of a test environment, and assistance in training development. The consulting costs will be incurred across the life of the project, with \$327,280 in 2021 and \$122,720 in 2022 (see **Attachment I**).

The expected cost is based on vendor-quoted prices. The driving expense behind the quote is the time spent designing workflows that reflect each of the key regulator functions expected to use the software (i.e., financial exam, financial analysis, and market conduct) which are each distinct. Services provided under the transition proposals also include user training and allow for users to test the use cases and for the vendor to adjust for regulator and NAIC staff feedback. Services provided also include meetings between the vendor and NAIC's ITG staff to design the database architecture as well as the associated access and authentication processes for a SaaS hosting environment.

Work performed under this service agreement is expected to include over 500 hours of the selected vendor's time billed based on fixed-fee increments tied to each service category (i.e., training, use case development, etc.). These estimates were derived after several meetings between the vendor, NAIC business and technical staff, the consulting firm assisting in research process, and key regulators. During several of these meetings, NAIC staff provided extensive details on the specific requirements necessary to complete a successful transition. Moreover, these estimates follow an extensive test process where the vendor was asked to demonstrate how its software could reflect complicated regulator workflows.

In addition to the funding requested, this project will require the following internal resources:

1. 250 hours of NAIC Financial Regulatory Services (FRS) Department staff time to oversee the development of each use case, supported by a group of regulator volunteers. FRS staff will also oversee the development of a comprehensive training curriculum.
2. 75 hours of NAIC Market Conduct Department time to oversee the development of each use case, supported by a group of regulator volunteers.
3. 50 hours of the security team's time to perform a security analysis of the selected vendor.
4. 50 hours (pending further study) of NAIC Information Technology Group (ITG) Department staff time to assist in designing and supporting the new hosting environment.\*
5. 150 hours of the training team's time to assist in the development and presentation of a comprehensive training curriculum.

\*Depending on the hosting environment that is developed, ITG may also need to spend between 250 – 1,000 hours supporting the users in the environment.

### **IV. Risk Management Plan:**

There are several potential risks associated with this project:

1. The selected vendor maybe unable to meet the project's needs for full implementation.

- a. To mitigate this, Novarica, a third-party consultant, has assisted with the vendor selection process. Novarica has worked with NAIC staff and regulators to ensure the research process is thorough and completed in a diligent manner.
2. Use cases may fail to capture the full breadth of regulatory needs.
  - a. NAIC staff’s work to research regulator needs should translate to the development of production environments as the criteria used to evaluate each software option will also be used to design the production environments.
  - b. Consistent with past practice, volunteer states will be asked to perform regulator work in the new software and will make production environment updates as feedback is received.
  - c. Staff familiarity with the work of regulators and working relationships will be key in designing effective production environments and soliciting input.

**V. Security Impact:**

The regulator data housed in the software being evaluated is important, confidential work. As such, the ability of the application and hosting environment to ensure a high level of security – such as encryption, multifactor authentication, and segregation of duties – is a key factor in the selection process.

Therefore, the NAIC’s internal security team’s review will focus on the vendor’s ability to protect confidential data. In so doing, the NAIC’s internal security continues to meet with IT support from various states to understand their cloud hosting security requirements and ensure they can be met by the selected vendor.

**VI. Transition Plan:**

This fiscal submission is focused on the transition-related expenses. However, thereafter, NAIC anticipates that in 2022, a production-ready SaaS environment would be available to regulators wishing to join, with options for on-premises installation also made available. Assuming approval of this submission, a proposed remaining project timeline is provided below:

Task	Timeline
1. Transition Expense Fiscal Approval	April/May 2021
2. Negotiation of Transition Contract	May/June 2021
3. Design and Negotiation of Hosting Contract	June 2021 > December 2021
4. Development of Regulator “Use Cases” <ol style="list-style-type: none"> <li>a. Financial Exams</li> <li>b. Financial Analysis</li> <li>c. Market Conduct Analysis &amp; Exams</li> </ol>	June 2021 > December 2021
5. Regulator Testing of “Use Cases”	January 2022 > June 2022
6. Development of Regulator Training	January 2022 > June 2022
7. Launch of Regulator Training	June 2022>August 2022
8. Launch of Production Environment	October 2022

## 2021 Budget

**Solvency Modernization - Implementation Preparation Phase  
Project Cost Analysis**

**Anticipated Start Date: May 2021  
Anticipated Completion Date: March 2022**

Description	2021 Budget	2022 Budget	2023 Budget
<b>Expenses:</b>			
Professional Services-Consulting	\$327,280	122,720	
<b>Total Expenses</b>	<b>327,280</b>	<b>122,720</b>	
<b>Revenues Over (Under) Expenses</b>	<b>(\$327,280)</b>	<b>(\$122,720)</b>	<b>\$0</b>