NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

November 22, 2024

**RFP #2097 | Credit Rating Provider Due Diligence**

In 2023, the National Association of Insurance Commissioners' (NAIC) Financial Condition (E) Committee introduced a *Framework for Regulation of Insurer Investments – A Holistic Review* that was revised and exposed for comment at the 2024 Spring National Meeting. The Executive Summary of the framework is as follows:

- Recent initiatives to address gaps in the regulatory framework for insurer investments have received much attention by a variety of stakeholders.

- While the broader commentary has included many misconceptions around these initiatives, it has also included constructive feedback with themes and observations that many regulators have shared.

- At the most basic level, the question has arisen – what is the most effective use of regulatory resources in the modern environment of insurance regulation for investments?

- The historical focus of the Securities Valuation Office (SVO) has been on risk assessment of individual securities, with filing exempt securities (FE) blindly reliant on credit rating providers (CRPs) for designations.

- The SVO currently lacks the tools to provide due diligence and assessment over the use and effectiveness of CRPs, or to conduct enterprise- or industry-wide risk analytics.

- Rather than a framework that utilizes valuable SVO resources to prioritize synthesizing CRP functions, a more effective use of those resources would be to prioritize the establishment of a robust and effective governance structure for the due diligence of CRPs.

- Further, with investment in modern risk analytics tools, the SVO could provide invaluable risk analysis capabilities to better support the risk-focused approach to supervision, at both a micro- and macro-prudential level.

- The framework provides concrete proposals envisioning a modernization of the role and capabilities of the SVO in a way that correlates with the observed shift towards more complex and asset-intensive insurer business strategies.

- The framework also provides high-level guidelines for considering consistency of capital across assets as investment RBC initiatives move forward, recognizing the practical limitations of absolute capital parity.

Currently, risk-based capital charges that support the capital framework to identify weakly capitalized insurers rely upon NAIC Designations as the measure of investment risk, for assets reported as bonds as well as limited risk assessment for non-bond holdings. NAIC Designations are either provided directly by the SVO for filed securities or, for the majority of insurer investments, by a direct translation of a credit rating from a CRP for those securities that are exempt from

filing. There are currently no criteria for becoming a CRP beyond being an U.S. Securities and Exchange Commission (SEC) registered Nationally Recognized Statistical Ratings Organization (NRSRO) and under its regulatory authority, the SEC is unable to opine on the quality of NRSRO methodologies and ratings. As such, the NAIC "blindly" relies on the CRP ratings. There is no mechanism for overall due diligence around CRP usage, no process to assess the reasonability of a CRP's ratings, nor an ability to challenge an individual rating for not conforming to regulator expectations of how it was determined. Based on this Framework, the NAIC is planning several workstreams to address the issues identified.

**Specific to the project that will result from this Request for Proposal (RFP), the NAIC is looking for detailed quantitative and qualitative technical recommendations that would address its objectives around CRP Due Diligence:**

- **Reduce/eliminate "blind" reliance on CRP ratings but retain overall utilization of CRP ratings with the implementation of a strong due diligence framework. This framework should be extremely robust with focused resources within the NAIC in its implementation and maintenance.**
- **At the completion of work for this project, there should be a quantitative and qualitative (as discussed on page 16 and 17 of this RFP) due diligence framework design and implementation plan that will permit the SVO to primarily focus on the on-going administration of this holistic due diligence process around CRP usage. That process must be vigorous and consequential (e.g. clear quantitative and qualitative parameters for CRPs utilized to provide ratings for use in assigning NAIC designations).**
- **Retain ability within the SVO to perform individualized credit assessment and utilize regulatory discretion when needed, under well-documented and governed parameters. This "backstop" should be embedded in the regulatory regime, but ideally would be rarely used if other governance is optimized.**

At this time, the NAIC is soliciting proposals from qualified third-party firms for the development of a "Credit Rating Provider (CRP) Due Diligence Framework", and detailed quantitative and qualitative analysis that supports the full development and implementation of the framework that can be repeated periodically by regulators and staff.

A clarification and question and answer session will be held on Jan. 7, 2025, at 11:30 AM, Central Time**.** Firms interested in submitting a proposal are encouraged to attend this WebEx session. Please click link to join.

Firms intending to respond to this RFP are asked to submit an email indicating their intent to bid and point of contact details by **5pm Central Time, January 13, 2025** via email to Jim Woody at Proposals@naic.org.

To receive consideration, final proposals must be sent electronically to Proposals@naic.org no later than **5pm Central Time, January 30, 2025**. Proposals received after this may not be included for consideration.

Proposals must address each item described within the RFP Response Requirements: 1| Respondent Company Overview, 2|Detailed RFP Response / Proposal, 3| Additional Required Documentation, and 4| Additional Instructions.

## RFP | Schedule

| | |
|---|---|
| Nov. 22, 2024 | RFP released |
| Jan. 7, 2025 | Clarification & Q&A Session at 11:30 AM, Central Time join here |
| Jan. 13, 2025 | Vendor intent to Bid due to Proposals@naic.org |
| Jan. 13, 2025 | Vendor RFP questions due to Proposals@naic.org |
| Jan. 23, 2025 | NAIC responses to vendor questions |
| Jan. 30, 2025 | Vendor submissions due by 5pm CT to Proposals@naic.org |
| Week of Feb. 17, 2025 | Vendor Interviews, if needed |
| March 28, 2025 | Projected Vendor Selection and RFP Award* |
| March 28, 2025 | Projected Project Start |

* NAIC's Executive Committee has the final authority to direct contract execution for the selected vendor.

## Selection Criteria

The RFP Selection Committee will base the vendor selection on criteria including:

- Completeness and quality of the proposal
- Experience with similar projects and the credit ratings process
- Professional reputation of the firm and qualifications of individuals assigned to this project
- Proposed project timeline and cost
- Analytical alignment of the proposed framework to the NAIC's financial solvency objectives.

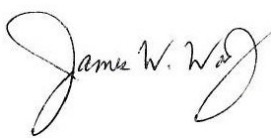
The NAIC reserves the right to reject any or all proposals, request new proposals or request additional information. The NAIC reserves the right to further negotiate with any or all bidders.

## Questions

Proposal-related questions should be submitted to Proposals@naic.org by **5pm Central Time, January 13, 2025**. Answers to each question submitted are anticipated to be posted on the NAIC RFP website by **January 23, 2025**.

Questions related to any other matter should be directed to NAIC Chief Financial Officer Jim Woody at JWoody@naic.org, who is the NAIC point-of-contact for this RFP.

Respectfully,



James Woody, Chief Financial Officer, National Association of Insurance Commissioners

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS (NAIC)

# Request for Proposal #2097

# Credit Rating Provider Due Diligence Framework

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## About the NAIC

The National Association of Insurance Commissioners (NAIC) is a 501(c) (3) not-for-profit organization.

The NAIC is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia, and five U.S. territories.

Through the NAIC, state insurance regulators establish standards and best practices, conduct peer review, and coordinate their regulatory oversight. NAIC staff supports these efforts and represents the collective views of state regulators domestically and internationally. NAIC members, together with the central resources of the NAIC, form the national system of state-based insurance regulation in the U.S.

## Role of the VOSTF

The NAIC has determined that assessing the risk of an insurance company's investments is a critical element in assessing that insurer's financial solvency position, which includes considering the credit quality of investment holdings, specifically bond-type securities which are a predominant investment holding among insurers. The Valuation of Securities (E) Task Force (VOSTF) formulates the NAIC's policies for securities that can be assigned the NAIC's measure of investment risk, an NAIC Designation. The Task Force's policies are documented and published in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual). The NAIC has assigned the Securities Valuation Office (SVO) and Structured Securities Group (SSG) the responsibility of carrying out the policies of the VOSTF and assigned the Task Force with the responsibility to oversee of the operations of these NAIC departments. The SVO and SSG, when referred to jointly, are called the Investment Analysis Office (IAO).

## SVO and SSG

The SVO and SSG are staffed by investment professionals whose careers have been dedicated to investment analysis. The analysis staff in these departments typically have over 25-years of investment experience, all have a bachelor's degree, 84% have an MBA, roughly a third are chartered financial analysts (CFA) or have some other advanced level certification or degree, and two-thirds have prior work experience at rating agencies.

The SVO conducts credit quality and investment risk assessments of securities owned by state-regulated insurance companies through insurer submissions of investment documents into the NAIC's VISION application and performs other functions such as: the administration of the filing exemption process (the NAIC's automated process for translating credit rating provider ratings into an NAIC Designation), compilation and publication of the SVO List of Investment Securities (a data set of all NAIC Designations published in the NAIC's native designation delivery application, named AVS+ ), maintenance of the list of credit ratings eligible for translation, oversight of the list of funds eligible to receive NAIC Designations, administration of the list of

qualified U.S. financial institutions that can issue letters of credit for reinsurance purposes, assessment of derivative counterparties, maintenance of the list of sovereign NAIC Designation equivalents, and any other process mandated in the P&P Manual.

The SSG assesses the credit quality and investment risks in securitizations and other complex financially engineered securities through the utilization and oversight of external financial modeling vendors. Typically, these are residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), mortgage reference securities and, beginning in 2025, collateralized loan obligations (CLOs).

## NAIC | Mission Statement

The mission of the NAIC is to assist the state insurance regulators, individually and collectively, in serving the public interest and achieving the following fundamental insurance regulatory goals in a responsive, efficient, and cost-effective manner, consistent with the wishes of its members:

- *Protect the public interest;*
- *Promote competitive markets;*
- *Facilitate the fair and equitable treatment of insurance consumers;*
- *Promote the reliability, solvency, and financial solidity of insurance institutions; and*
- *Support and improve state regulation of insurance.*

## The Use of Credit Ratings of NRSROs in NAIC Processes

### Providing Credit Rating Services to the NAIC

The NAIC uses credit ratings for a number of regulatory purposes, including, to administer the filing exempt rule. Any rating organization that has been designated a Nationally Recognized Statistical Rating Organization (NRSRO) by the U.S. Securities and Exchange Commission (SEC) and which continues to be subject to federal regulation, may apply to provide Credit Rating Services to the NAIC for the classes of credit ratings for which it is registered as an NRSRO.

### Policy and Legal Disclosure Pertaining to the NAIC Credit Rating Provider (CRP) List

The NAIC uses publicly available credit ratings, when available, as one component of the services it provides to state insurance regulators concerned with financial solvency monitoring of insurance company investments.

The NAIC acts solely as a private consumer of credit ratings. The sole NAIC objective in obtaining and using credit ratings is to conserve limited regulatory resources; e.g., the resources of the SVO. The VOSTF has established the procedure specified in this section solely to ensure that the NAIC can avail itself of credit rating opinions.

The NAIC does not select, approve or certify NRSROs or other rating organizations or distinguish among them for any public or policy purpose whatsoever. Nor does the NAIC endorse the credit rating or analytical product of any CRP or rating organization or distinguish between CRPs or rating organizations for any specific public purpose. The NAIC disclaims any authority to regulate CRPs or rating organizations.

### NAIC Designations

NAIC Designations are proprietary symbols of the NAIC. The SVO, the SSG and, under certain circumstances, insurers, produce NAIC Designations for insurer-owned securities using the policies, procedures or methodologies adopted by the VOSTF in the P&P Manual. NAIC Designations are produced for statutory accounting, reporting, state investment laws and other purposes identified in the NAIC Financial Regulation Standards and Accreditation Program and/or other NAIC developed regulatory guidance embodied in state law. They must be considered in the context of their appropriateness and consistency of use in the NAIC Policy Statement and Financial Regulation Standards (SFRS) and other NAIC guidance.

NAIC Designations represent opinions of gradations of the likelihood of an insurer's timely receipt of an investment's full principal and expected interest ("investment risk"). Where appropriate for a given investment, NAIC Designations and Designation Categories shall reflect "tail risk" and/or loss of given default, the position of the specific liability in the issuer's capital structure, and all other risks, except for volatility/interest rate, prepayment, extension or liquidity risk. NAIC Designations shall be identified by the NAIC 1 through NAIC 6 symbols (as

modified by NAIC Designation Categories) which indicate the highest quality (least risk) to the lowest quality (greatest risk), respectively.

Investment risk is the likelihood that an insurer will receive full and timely principal and expected interest. It differs from "credit risk" which focuses on the ability of an issuer to make payments in accordance with contractual terms. Credit risk is, at times, too narrow a concept for NAIC purposes. For example, the performance component of a principal protected security (PPS) may produce no return and, therefore, the PPS could pay no interest with no event of 'default' by the issuer. As such, focusing solely on credit risk could limit the SVO's ability to assess the risk of the performance component of a principal protected security or on potential risks posed by other investment types.

NAIC Designation Category means and refers to 20 more granular delineations of investment risk in the NAIC 1 through NAIC 6 investment risk scale used by the VOS/TF to relate investment risk in insurer-owned securities to a risk-based capital factor assigned by the NAIC Capital Adequacy (E) Task Force. Each delineation of investment risk is represented by a letter (a Modifier) which modifies the NAIC Designation grade to indicate a more granular measure of investment risk within the NAIC Designation grade. The more granular delineations of investment risk are distributed as follows: 7 for the NAIC 1 Designation grade indicated by the letters A through G; 3 delineations each for each of the NAIC Designation grades NAIC 2, NAIC 3, NAIC 4 and NAIC 5 indicated by the letters A, B and C and 1 delineation for NAIC Designation grade NAIC 6. The NAIC Designation Category framework is shown in the P&P Manual. All Modifiers roll up into the respective NAIC Designation grade as they are a subset of them.

| NAIC Designation | + | NAIC Designation Modifier | = | NAIC Designation Category |
|---|---|---|---|---|
| 1 | | A | | 1.A |
| 1 | | B | | 1.B |
| 1 | | C | | 1.C |
| 1 | | D | | 1.D |
| 1 | | E | | 1.E |
| 1 | | F | | 1.F |
| 1 | | G | | 1.G |
| 2 | | A | | 2.A |
| 2 | | B | | 2.B |
| 2 | | C | | 2.C |
| 3 | | A | | 3.A |
| 3 | | B | | 3.B |
| 3 | | C | | 3.C |
| 4 | | A | | 4.A |
| 4 | | B | | 4.B |
| 4 | | C | | 4.C |
| 5 | | A | | 5.A |
| 5 | | B | | 5.B |
| 5 | | C | | 5.C |
| 6 | | | | 6 |

An objective of the VOSTF is to support regulators in the assessment of the financial ability of an insurer to maintain financial solvency, through the making of policy concerning insurer investment risk and the identification and sharing of pertinent information with other relevant regulators and regulatory groups responsible for the NAIC's regulatory framework.

## NAIC Policy on the use of Credit Ratings of NRSROs

### Procedure to Become an NAIC Credit Rating Provider

An NRSRO that wishes to provide Credit Rating Services to the NAIC may indicate its interest by sending a letter to the Chair of the VOSTF with a copy to the Director of the SVO, in which it:

- Indicates an interest in providing Credit Rating Services to the NAIC.
- Confirms that it is currently an NRSRO subject to regulation by the SEC.
- Provides a chart mapping its credit rating symbols to NAIC Designations.
- Indicates that the NRSRO agrees to enter into a legally binding agreement under which the NRSRO will:
    - Provide Credit Rating Services to the NAIC at no cost;
    - Reimburse the NAIC for all costs associated with: integration of its data feed into NAIC systems, subsequent changes to NAIC systems to accommodate changes in the NRSRO's systems and changes to NAIC systems as a result of the termination of Credit Rating Services by the NRSRO;
    - Give written notice 6 months prior to terminating Credit Rating Services; and
    - Agree not to claim in marketing literature that the provision of Credit Rating Services indicates NAIC approval or endorsement of the NRSRO, its products or services.

When directed to do so by the VOSTF, the SVO shall add the name of the NRSRO (thereafter described as a Credit Rating Provider (CRP)) to the NAIC Credit Rating Provider List in the publication of the P&P Manual that follows the execution of an agreement between the NAIC and the NRSRO.

### Regulatory Significance – Filing Exempt Rule

Adding the name of an NRSRO to the Credit Rating Provider List indicates that insurance companies must use the credit ratings assigned by that NRSRO, if any, when determining the NAIC Designation equivalent for a security to be reported under the filing exempt rule. Only those NAIC CRP ratings that meet the definition below may be translated into NAIC Designations under the filing exempt rule. Securities assigned ratings by NAIC CRPs that do not meet the definition below, shall be filed with the SVO. The translation of a NAIC CRP rating into an NAIC Designation is conducted in accordance with the procedures described in the P&P Manual.

### Definition – Credit Ratings Eligible for Translation to NAIC Designations

As disclosed below, the NAIC may determine that the rated security or investment is of a type that is not eligible to be reported on Schedule D or that the NAIC determines is not appropriate for NRSRO credit ratings to be used to determine the regulatory treatment of a specific asset class, as specified in the P&P Manual.

The credit rating of the CRP to which this section and the NAIC Credit Rating Provider List refers to is the (a) credit rating assigned by the NAIC CRP; (b) by application of a CRP's proprietary long-

term obligation ratings scale and methodology; to (c) securities.

Credit ratings of a NAIC CRP that meet this definition are entitled to a presumption of convertibility to the equivalent NAIC Designation published in the NAIC Credit Rating Provider List except that the presumption of convertibility is subject to the following limitations:

- Those rating activities or markets in which the entity has NAIC CRP status.
- Securities with monitored NAIC CRP ratings that:
    - Are monitored at least annually by the CRP that issued the rating;
    - Are assigned to a specific issue that must be specifically identified;
    - Apply to securities where the issuer promises to repay principal and interest or dividends;
    - Convey an opinion as to the likelihood of payment of both principal and interest/dividends due from the issuer to the holders of the security; or
    - Are structured to pay only principal or only interest/dividends, if the monitored NAIC CRP rating addresses the likelihood of payment of either the principal, in the case of a security structured to pay only principal or the interest/dividends, in the case of security structured to pay only interest/dividends (an "Eligible NAIC CRP Rating").

### Special Rating Systems

Unless otherwise specifically approved by the VOSTF special rating systems of any CRP, rating agency or rating organization shall not be entitled to a presumption of convertibility. Nevertheless, an SVO analyst assessing a security that has been assigned such a rating by any rating organization, including a CRP, may consider the information imparted by that rating or a related research report as one factor in determining an NAIC Designation

## List of NAIC Credit Rating Providers

The CRPs that provide Credit Rating Services to the NAIC are (listed alphabetically):

- A.M. Best Rating Services, Inc. (A.M. Best) – For credit ratings issued to insurance companies; corporate issuers and issuers of asset-backed securities.
- DBRS, Inc. (DBRS Morningstar) – For credit ratings issued to financial institutions, brokers, or dealers; insurance companies; corporate issuers; issuers of asset-backed securities and issuers of government securities, municipal securities, or securities issued by a foreign government.
- Egan-Jones Ratings Co. – For credit ratings issued to financial institutions, brokers, or dealers; insurance companies and corporate issuers.
- Fitch Ratings, Inc. – For credit ratings issued to financial institutions, brokers, or dealers; insurance companies; corporate issuers; issuers of asset-backed securities and issuers of government securities, municipal securities, or securities issued by a foreign government.
- HR Ratings de Mexico, S.A. de C.V. – For credit ratings issued to financial institutions, brokers, or dealers; corporate issuers and issuers of government securities, municipal securities, or securities issued by a foreign government.
- Kroll Bond Rating Agency, LLC. – For credit ratings issued to financial institutions, brokers,

or dealers; insurance companies; corporate issuers; issuers of asset-backed securities and issuers of government securities, municipal securities, or securities issued by a foreign government.

- Moody's Investors Service, Inc. for credit ratings issued to financial institutions, brokers, or dealers; insurance companies; corporate issuers; issuers of asset-backed securities and issuers of government securities, municipal securities, or securities issued by a foreign government.
- S&P Global Ratings, for credit ratings issued to financial institutions, brokers, or dealers; insurance companies; corporate issuers; issuers of asset-backed securities and issuers of government securities, municipal securities, or securities issued by a foreign government.

The Credit Rating Providers identified above include those of its affiliates that the credit rating provider identified to the U.S. Securities and Exchange Commission (SEC) as part of its Form NRSRO Application as a separate legal entity or a separately identifiable department or division of the credit rating provider that determines credit ratings that are credit ratings of the credit rating provider and which the SEC treats as a credit rating issued by the credit rating provider for purposes of Section 15E of the Exchange Act and the SEC's rules thereunder. The full list of CRP ratings eligible for translation to an NAIC Designation can be found on the SVO's webpage: NAIC – Credit Ratings Eligible for Translation to NAIC Designations.

# CRP Credit Rating Equivalent to NAIC Designations and NAIC Designation Categories (agencies listed in order as they appear in the P&P Manual)

| | | | Credit Rating Providers (*) (Pursuant to the guidance in this Manual; particularly, Part One, "The Use of Credit Ratings of NRSROs in NAIC Processes," "Filing Exemptions," "Policies Applicable to Specific Asset Classes," and Part Three, "Procedure Applicable to Filing Exempt (FE) Securities and Private Letter (PL) Rating Securities") | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| NAIC Designation | NAIC Designation Modifier | NAIC Designation Category | Moody's Investors Service, Inc. | S&P Global Ratings | Fitch Ratings, Inc. | DBRS, Inc. (DBRS Morningstar) | A.M. Best Rating Services, Inc. | Kroll Bond Rating Agency, LLC | Egan-Jones Ratings Co. | HR Ratings de Mexico, S.A. de C.V. |
| 1 | A | 1.A | Aaa | AAA | AAApre, AAA | AAA, Pfd-1 (high) | aaa | AAA | AAA | HR AAA (G) |
| 1 | B | 1.B | Aa1 | AA+ | AA+ | AA (high), Pfd-1 | aa+ | AA+ | AA+ | HR AA+ (G) |
| 1 | C | 1.C | Aa2 | AA | AA | AA, Pfd-1 (low) | aa | AA | AA | HR AA (G) |
| 1 | D | 1.D | Aa3 | AA- | AA- | AA (low), Pfd-1 | aa- | AA- | AA- | HR AA- (G) |
| 1 | E | 1.E | A1 | A+ | A+ | A (high) | a+ | A+ | A+ | HR A+ (G) |
| 1 | F | 1.F | A2 | A | A | A | a | A | A | HR A (G) |
| 1 | G | 1.G | A3 | A- | A- | A (low) | a- | A- | A- | HR A- (G) |
| 2 | A | 2.A | Baa1 | BBB+ | BBB+ | BBB (high), Pfd-2 (high) | bbb+ | BBB+ | BBB+ | HR BBB+ (G) |
| 2 | B | 2.B | Baa2 | BBB | BBB | BBB, Pfd-2 | bbb | BBB | BBB | HR BBB (G) |
| 2 | C | 2.C | Baa3 | BBB- | BBB- | BBB (low), Pfd-2 (low) | bbb- | BBB- | BBB- | HR BBB- (G) |
| 3 | A | 3.A | Ba1 | BB+ | BB+ | BB (high), Pfd-3 (high) | bb+ | BB+ | BB+ | HR BB+ (G) |
| 3 | B | 3.B | Ba2 | BB | BB | BB, Pfd-3 | bb | BB | BB | HR BB (G) |
| 3 | C | 3.C | Ba3 | BB- | BB- | BB (low), Pfd-3 (low) | bb- | BB- | BB- | HR BB- (G) |
| 4 | A | 4.A | B1 | B+ | B+ | B (high), Pfd-4 (high) | b+ | B+ | B+ | HR B+ (G) |
| 4 | B | 4.B | B2 | B | B | B, Pfd-4 | b | B | B | HR B (G) |
| 4 | C | 4.C | B3 | B- | B- | B (low), Pfd-4 (low) | b- | B- | B- | HR B- (G) |
| 5 | A | 5.A | Caa1 | CCC+ | CCC+ | CCC (high), Pfd-5 (high) | ccc+ | CCC+ | CCC+ | HR C+ (G) |
| 5 | B | 5.B | Caa2 | CCC | CCC | CCC, Pfd-5 | ccc | CCC | CCC | HR C (G) |
| 5 | C | 5.C | Caa3 | CCC- | CCC- | CCC (low), Pfd-5 (low) | ccc- | CCC- | CCC- | HR C- (G) |
| 6 | | 6 | Ca | CC | CC | CC (high) | cc | CC | CC | HR D (G) |
| 6 | | 6 | C | C | C | CC | c | C | C | |
| 6 | | 6 | | D | DDD | CC (low) | d | D | D | |
| 6 | | 6 | | | DD | C (high) | | | | |
| 6 | | 6 | | | D | C | | | | |
| 6 | | 6 | | | | C (low) | | | | |
| 6 | | 6 | | | | D | | | | |

**Note: * This is a listing of only the "generic" Credit Rating Provider (CRP) rating symbols. CRPs use a variety of symbols; including, combinations of prefixes and suffixes that provide additional information about the rating symbol which are described in the CRP's documentation. There are over 2,000+ unique rating symbols used by CRPs to describe long-term securities. The SVO webpage (https://www.naic.org/svo.htm) maintains a master list of Credit Ratings Eligible for Translation to NAIC Designations. The SVO does not currently translate short-term security ratings as part of its Compilation and Publication of the SVO List of Investment Securities incorporated into the NAIC's AVS+ product.**

## Vision and Objectives

Specific to the project that will result from this Request for Proposal (RFP), the NAIC is looking for detailed quantitative and qualitative technical recommendations that would address its objectives around CRP Due Diligence:

- Reduce/eliminate "blind" reliance on CRP ratings but retain overall utilization of CRPs ratings with the implementation of a strong due diligence framework. This framework should be extremely robust with focused resources within the NAIC in its implementation and maintenance.
- At the completion of work for this project there should be a quantitative and qualitative due diligence framework design and implementation plan that will permit the SVO to primarily focus on the on-going administration of this holistic due diligence process around CRP usage. That process must be vigorous and consequential (e.g. clear quantitative and qualitative parameters for CRPs utilized to provide ratings for use in assigning NAIC designations).
- Retain ability within the SVO to perform individualized credit assessment and utilize regulatory discretion when needed, under well-documented and governed parameters. This "backstop" should be embedded in the regulatory regime, but ideally would be rarely used if other governance is optimized.

The request also includes some aspects of other components of our framework, when impactful to the objectives above. This includes recommendations of how to best utilize and enhance the structured asset modeling capabilities of the SVO and for recommended governance and oversight of the SVO's operations (i.e. the production and oversight of NAIC designations).

This project should be delivered in two phases. Phase 1 deliverables include recommendations and considerations on how to accomplish the objectives, with consideration to the questions below, and Phase 2 Deliverables will include development of the recommendations into an actionable framework for the NAIC to implement and maintain.

The following guidance should inform the approach to addressing the objectives above:

- Quantitative and qualitative analysis, both initial and ongoing, should be applied to all CRPs and CRP applicants consistently and equally. State regulators and the NAIC are agnostic to the credit rating providers used in the NAIC Designation process, subject to the due diligence framework as established. Accordingly, the process should not encourage a uniformity of thought among the CRPs.

- The scope is all existing CRPs and future CRP applicants (with the intent of "reapplication" on a periodic basis).

- The ultimate design of the due diligence framework will be decided through the established policies and procedures of the NAIC and is expected to leverage the recommendations made by the selected vendor. The goal is to be as transparent through the process as possible while balancing any sensitivity of the selected vendor to details of its report being made public.

Regardless of the degree to which vendor recommendations can be made public, the ultimate design of the due diligence framework and the justification for such will be attributable to the NAIC and its state regulator members and subject to the open, transparent processes of the NAIC whereby all stakeholders will have the opportunity to provide input.

- The ultimate design of the due diligence framework should also target the highest degree of transparency possible on an ongoing basis, with the express intention of fostering stability and predictability for all stakeholders in balance with meeting the regulatory objectives of the framework.

- NAIC will have responsibility to implement and maintain the ultimate framework under the oversight of state regulators.

- A specific timeline has not been determined for this project and vendors should provide their own anticipated timeline. It is understood that Phase 2 timelines are based on the outcomes of Phase 1 and will be less firm.

- The ultimate approach should be designed in such a way that it can evolve naturally with capital markets and innovation, without penalizing new and emerging asset types.

- While the following sections provide many questions for consideration, the process, sources and deliverables are deliberately left open-ended, and proposed solutions with characteristics not considered within this document are welcome.

**Quantitative Analysis**

Currently, NRSROs applying to be a CRP provide their own mapping of NRSRO ratings to corresponding NAIC Designations. The NAIC would like to be able to utilize data in order to validate this mapping and/or establish its own mapping. A key objective is that ratings performance is shown to be representative of those used specifically for NAIC Designations (rather than all ratings issued by an NRSRO, if not otherwise representative of those used for NAIC Designations). For that purpose:

- What analytical approach should be used to compare each rating agency's rating methodology for a given security type, or sector/industry, or more broadly, to use those ratings to map and assign NAIC Designations?
- How should jointly rated securities (rated by more than one rating agency) and single-rated securities be analyzed? Should they be analyzed and mapped differently?
- Should public credit ratings and private credit ratings be distinguished for analysis and mapping purposes?
- Should ratings on securities from only one CRP be analyzed and mapped differently?
- Should the NAIC consider requiring two or more ratings to inform a designation to reduce reliance on a single rating?
- For securitizations, should ratings be analyzed and mapped differently if different CRPs are rating different tranches in a single securitization (i.e. no consistent CRP throughout the securitization)?
- How should ratings that incorporate a security's expected loss given default (versus simple probability of default) impact the analysis and mapping?
- What is the scope of the analysis and mapping, i.e. at a rating agency level, or at an asset-

class, sector or other specified basis?

- Should analysis be heavily weighted toward default and loss experience associated with rating levels? NRSROs have noted default studies may not be sufficient for investment grade portions of rating scales, whereas non-investment grade ratings may have higher rates of transition and default. What other metrics could be utilized for analysis and mapping?
- How should the analysis consider economic or financial market conditions over the periods covered, particularly periods of extreme distress for credit such as the Global Financial Crisis, dotcom bubble, junk bond crash, S&L crisis, OPEC oil embargo, or any other major bond market distress event?
- To what extent can the NAIC rely on market usage of ratings to act as a validating tool, and how does that apply to private ratings that are not issued publicly?
- How would the analysis demonstrate that the credit ratings can be used as a proxy for an NAIC Designations?
- How should new investment types, emerging asset classes without quantifiable history, newly established NRSROs, etc. be considered when applying the ultimate framework?

**Sources of Data**

- What specific fields and definitions would you need from the CRP applicant, the frequency of the observations and the elapsed time period in years or date ranges?
- Are NRSRO filings with the U.S. Securities and Exchange Commission sufficient for this analysis and how? How can we ensure this data is aligned with the ratings most predominantly used in the NAIC designation process (for example, solicited versus unsolicited ratings)?
- Could this analysis be best performed utilizing the NAIC's own data, presumably best reflective of insurer's actual investment universe, and if so, how could that be accomplished most effectively?
- Should data be required of the insurance companies themselves, including internal rating assessments, given insurers have the ultimate responsibility for prudent investment oversight? What potential enhancements to governance procedures applicable to insurers and insurance groups be considered in their use of CRP ratings?
- How could the state insurance supervisory examination process provide information or data to inform the analysis and mapping?
- The NAIC's SSG has modeling capabilities, both current and planned, meant to assess the growing structured securities market. How should those capabilities be used to monitor the rating agency ratings on structured securities? What enhancements can be made to those capabilities to further utilize them effectively?
- What other sources of data would be most beneficial to this process? Preference should be given to data that is most easily obtained. This may require collaboration with NAIC staff, industry and NRSROs to identify.
- NOTE: Dependent on data sources identified, the NAIC will retain responsibility for control of data and data access as well as appropriate cyber hygiene principals for data storage and administration.

**Other Considerations for CRP Qualifications**

- What procedures and policies should be implemented to facilitate periodic, and transparent discussions between the NAIC, regulators and CRPs regarding NAIC's use of ratings, as a consumer, in its regulatory framework, including emerging investments & methodologies, questions NAIC may have on existing investments, discussions the CRPs wish to have with the NAIC, etc? Additionally, what safeguards should be put in place to ensure that the NAIC does not violate the Credit Rating Agency Reform Act?
- What is the overarching process for how the NAIC should implement a review process? Initial application, renewal application (what time frame), upon certain triggers such as SEC Violations or other legal actions?
- What are the qualifications that a rating agency should possess to be an input into the NAIC designation process, and how should the NAIC assess those qualifications?
- What should disqualify a rating agency from being a CRP to the NAIC?
- What are any actual, potential or potentially perceived conflicts of interest that should disqualify a rating agency from being a CRP to the NAIC, including measurable items such as material relationships with insurers or their ownership entity.
- How should conflicts of interest be defined for this purpose and how should they be disclosed to the NAIC?
- How should SEC Violations or other legal actions be assessed and addressed.
- If a CRP were to be disqualified based on criteria established, what steps should it take to remediate this at a firm, asset-class, sector or other level.

**Ongoing Internal Oversight**

- Define an examination/review process state regulators can utilize to provide oversight of the SVO in its implementation of this framework, along with its own production of designations and its usage of individualized challenges to CRP ratings in the designation process.
- Define an examination/review process state regulators can utilize to provide oversight of the SSG in its implementation of this framework, its own production of modeling-based designations (both internally and outsourced), including model governance and validation.
- While overall processes would be internally performed, aid in the design of an informative report that can be provided at the relevant NAIC committee(s) to demonstrate such oversight to interested parties and other market participants.
- Define an examination/review process state regulators and the NAIC can utilize to regularly reassess this framework, and the mapping and assignment of NAIC Designations to enhance consistency of the due diligence framework.

## Required Sections and Information

Respondents to this RFP are asked to include the following sections and information in their submitted proposals:

### | Respondent Company Overview

- Concise description and overview of the company and its history.
- Outline of services the company offers, as it relates to requirements outlined in this RFP.
- A brief history and description of any work carried out for NAIC or any NRSRO in the last ten (10) years.
- A brief history and description of delivery of projects of this or similar type.
- A description of the company's familiarity with the state-based insurance regulatory framework and the role of the NAIC, including the Securities Valuation Office.
- A description of the company's familiarity with NAIC designations and how they are utilized in the regulatory framework, including for purposes of applying risk-based capital charges to insures to identify weakly capitalized companies.
- A description of the company's knowledge of credit ratings and credit rating agencies, including measurements of performance and default studies, or a description of the company's access to such information.
- A detailed description of the capabilities and experience of the company to perform the requirements of the project contemplated by this RFP, including experience evaluating data in a complex environment
- Details of the point of contact who will facilitate this project, their biography, experience, and contact information.
- Biographies of key personnel to be assigned to this project, including their role and specific experience and expertise.
- Detailed description of three to five similar engagements completed, noting projection duration and total cost, and a client reference for each.
- Disclose in detail any actual, potential or potentially perceived conflicts of interest of your firm or anyone working on this initiative may have analyzing rating agencies, issuers of securities with ratings (public or private) or investors in securities with ratings (public or private). Note it is recognized that these types of relationships will normally occur in concert with the familiarity and expertise this initiative requires, and that any actual, potential, or potentially perceived conflicts of interest will not automatically disqualify your firm or anyone working on this initiative.
- Any other information that the respondent feels relevant / useful as it pertains to the requirements outlined in this RFP.

## | Detailed RFP Response / Proposal

Respondents should prepare a detailed RFP response / proposal that addresses the objectives of the preceding section, including:

- A detailed narrative on how you anticipate approaching this project*
- What methodology(ies) you will utilize
- What data sources you will utilize
- What resources you will require from the NAIC, SVO and regulators
- Any initial conclusions or recommendations regarding the outcome of this project

*The first item above (approach to project) is considered the most important aspect of the respondent's proposal. Please consider this in your proposal as well as how the approach incorporates the methodology and data sources.

### *Project Plans*

Project plans for completion of the analysis outlined in this RFP, that include, to a reasonable amount of detail:

- Key tasks, activities, milestones, and deliverables.
- Relevant timelines, schedules, and input / decision points.
- Any critical assumptions and / or dependencies.

Acceptable formats for the project plans include MS Project and MS Excel.

### *Analysis Approach*

Additional detail and relevant supporting information on the proposed software or analytical tools and processes to be used within the development of the CRP Due Diligence framework and how they relate to and impact the proposed Project Plan, Resource Plan, and Budget and Contingency Plans.

### *Resources Plan*

Detailed resource plans to deliver the CRP Due Diligence framework, as outlined in this RFP, that include, to a reasonable amount of detail:

- Resources (both vendor and NAIC) required.
- Hours per week, by resource (both vendor and NAIC).
- Location (on-shore, off-shore) of vendor resources.
- Rates (costs per hour) of vendor resources.

The resources plans should align to the project plans (in terms of key activities, milestones, and deliverables) and the fee schedule / pricing information.

### *Fee Schedule and Pricing Information*

Detailed fee schedules, total projected budgets, and other pricing information for phase, including assumptions on:

- Additional Expenses (e.g., travel, lodging, meals, etc.)
- Technology costs (e.g., hardware, software licensing, etc.) to set up and maintain the CRP Due Diligence framework.
- Key Milestones and Deliverables (and how they relate to payment phasing).
- Recommended financial contingency provisions.

The NAIC will consider both fixed-fee and "time and materials" bids for development of the CRP Due Diligence framework.

### *Project Management*

A detailed explanation of the project management tools, processes, and approaches to be used on the project, including:

- How vendor resources will integrate with NAIC resources.
- A communication plan (including key tasks, activities, milestones, resources needed, etc.) for the project explaining how key stakeholders will be engaged and kept updated on progress to date, hours / budget vs. plan, issues, and input and decisions needed, etc.
- A change management plan (including key tasks, activities, milestones, resources needed, etc.) for the project explaining how effective change will be delivered across all stakeholders to ensure the long-term success of the modernized CRP Due Diligence framework.
- Project governance considerations.
- A project risk assessment and risk management plan.

## • | Additional Required Documentation

Respondents must provide the following information as part of their proposal:

- W-9 Form.
- Certificate of Insurance for Worker's Compensation.
- Certificate of Insurance for Professional Liability.
- Certificate of Insurance for Cybersecurity.
- Signed NAIC Conflict of Interest Form (see Appendix 1).
- Vendor Standard Terms and Conditions (if you do not agree to, or if they vary from the NAIC Standard Terms and Conditions, see Appendix 2).

## • | Additional Instructions

- Please reference RFP #2097 on all parts of the proposal.
- Please ensure you have provided the following Point of Contact Information:
  - NAME
  - COMPANY
  - EMAIL
  - PHONE

## Proposal Submission

Proposals must be received by 5pm Central time on Jan. 30, 2025, via email to Jim Woody at Proposals@naic.org.

## RFP Provisional Timeline

| | ACTIVITY | DATE |
|---|---|---|
| 1 | NAIC Issuance of RFP | Nov. 22, 2024 |
| 2 | NAIC public posting of RFP on website + press release | Nov. 22, 2024 |
| 3 | NAIC hosted project clarification & Q&A Session at 11:30 A.M. Central Time join here | Jan. 7, 2025 |
| 4 | Vendor intent to Bid due to Proposals@naic.org [7] | Jan. 13, 2025 |
| 5 | Vendor RFP questions due to Proposals@naic.org [8] | Jan. 13, 2025 |
| 6 | NAIC responses to vendor questions [9] | Jan. 23, 2025 |
| 7 | Vendor proposal submissions due to Proposals@naic.org | Jan. 30, 2025 |
| 8 | NAIC notice of selection for vendor interview [10] | As soon as practical |
| 9 | Vendor Interviews | Week of Feb. 17, 2025 |
| 10 | NAIC issuance of award to the selected vendor - projected | Mar. 28, 2025 |
| | Projected Project Start Date | Mar. 28, 2025 |

The NAIC reserves the right to change or alter timing and activities as appropriate.

* NAIC's Executive Committee has the final authority to direct contract execution for the selected vendor.

## Point of Contact

Any questions regarding the requirements outlined in the RFP should be directed to Proposals@naic.org by January 13, 2025.

Questions related to any other matter should be directed to NAIC Chief Financial Officer, Jim Woody at JWoody@naic.org, who is the NAIC point-of-contact for this RFP.

[7] Potential respondents are asked to submit an email indicating their intent to bid by January 13, 2025, via email to Jim Woody at Proposals@naic.org.

[8] Each respondent is asked to send a single set of questions (vs. multiple sets of questions) related to RFP and response requirements.

[9] Submitted questions will be anonymized and responses to all questions will be posted to the NAIC website.

[10] The NAIC reserves the right to interview a limited number of bidders based on its evaluation of the submitted proposals. Submission of a proposal does not guarantee an interview.

## Selection Process

A committee including NAIC senior leadership has been designated to review the proposals, interview selected bidders, and, if appropriate, select a vendor to complete the scope of work outlined in this RFP.

This committee will also conduct regular progress meetings with the selected firm during the development and demonstration of the Proof of Concept, and during the Mobilization Planning phase.

## Assessment Criteria

The following factors will be considered in making the vendor selection:

- Knowledge and understanding of NAIC systems, processes, and organization.
- Knowledge of the specific requirements and ability to understand the project.
- Experience with similar projects.
- Qualifications of staff dedicated to project.
- Professional reputation of the firm.
- Proposed project costs and timelines.
- Quality of project plans.
- Completeness of proposal.
- Proven ability to provide the identified deliverables on time and within budget.

## Presentations

Based on responses, NAIC reserves the right to request a presentation of the RFP response and demonstration of capabilities included in the RFP response document.

Presentations are currently anticipated to take place the week of February 17, 2025.

## Conflicts of Interest

The NAIC recognizes that, given the broad scope of this project, any vendor with the experience reasonably necessary to produce the work may have certain conflicts of interest based upon past associations with regulators or industry participants.

These conflicts of interest will not automatically disqualify the vendor, but the vendor must have verifiable policies and procedures in place designed in compliance with established industry standards to address conflict-of-interest issues that may arise.

All relevant items must be approved prior to contract execution by NAIC's Chief Executive Officer, CFO and/or COO/CLO.

## NAIC Reserved Rights

The submission of a proposal does not guarantee an interview with the selection committee or a demonstration of capabilities to the committee.

The NAIC reserves the right to reject any or all proposals, request new proposals, or request additional information.

NAIC also reserves the right to further negotiate with any or all bidders.

The NAIC also reserves the right not to award a contract for this project.

Reasons for not awarding a contract could include, but are not limited to:

- Lack of acceptable proposals.
- An inability to come to terms with a vendor.
- A finding that insufficient funds are available to proceed.

The NAIC also reserves the right to redirect the project as is deemed advisable.

The NAIC also reserves the right to cancel this RFP at the direction of its membership.

## APPENDICES

| | |
|---|---|
| Appendix 1 | NAIC Conflict of Interest Form |
| Appendix 2 | NAIC Standard Terms and Conditions |

## Appendix 1 | NAIC Conflict of Interest Form

Any Entity that desires to contract with the NAIC must complete this form, including suppliers, consultants and purchasers of goods or services. All potential conflicts must be disclosed and approved before contract execution.

**CERTIFICATION**

- _____(*"Entity"*) did not provide gifts, favors, membership points or any other benefits to any employee or representative of the NAIC to affect the bidding and selection process for this contract.
- *Entity* did not and will not receive gifts, favors, membership points or any other benefits from any employee or representative of the NAIC in connection with the negotiation or implementation of this contract.
- *Entity* owners, principals and employees negotiating or implementing this contract on behalf of *Entity* are not former NAIC employees unless disclosed below.
- *Entity* owners, principals and employees negotiating or implementing this contract on behalf of *Entity* are not immediate family members of NAIC employees unless disclosed below.

The signatory below is a duly authorized representative of Entity and hereby certifies to the authenticity and veracity of this disclosure.

_____ _____
*Authorized Entity Signature* *Date*

_____
*Print Name & Company Name*

**DISCLOSURE**

**DISCLOSURE OF POTENTIAL CONFLICT**

……
……
……

_____ _____
*NAIC CEO or COO* *Date*

# TERMS AND CONDITIONS

1. **SERVICES/CONSULTANT OBLIGATIONS**

Consultant shall provide certain consulting services to the NAIC as outlined in any Statement of Work specifically referencing this Agreement and attached hereto as Exhibit A. (detail the services the consultant will perform in a Statement of Work and attach to this agreement as Exhibit A). Consultant may perform such other services as requested by the NAIC, subject to further agreement by the Parties. Consultant shall comply with all provisions in the NAIC's Contingent Worker Policies, receipt and review of which are expressly acknowledged by Consultant. Consultant shall comply with all applicable security and safety requirements of the NAIC and shall take such training as required by the NAIC.

2. **NAIC'S AUTHORITY**

Consultant shall report directly to (indicate person and/or committee) of the NAIC for matters related to the scope of work of this Agreement, and to indicate person and/or committee) of the NAIC for administrative matters and to such other person(s) as designated. Consultant agrees to perform services required under this Agreement in compliance with the instructions and policies set forth by the NAIC. The NAIC maintains the right and authority to control Consultant's work results but will not control the means and the manner which Consultant utilizes in the attainment thereof.

3. **CONSULTANT'S AUTHORITY/INDEPENDENT CONTRACTOR STATUS**

The term "Consultant" as used in this Agreement, shall mean the individual Consultant Company and the employees or agents of the Consultant Company. The consultant is not an employee or agent of the NAIC. Consultant acknowledges that the Consultant is an independent contractor and is not authorized to act on behalf of the NAIC. Nothing in this Agreement shall be deemed to create an agency, joint venture, partnership or franchise relationship between the Parties. Consultant shall have no authority to represent the NAIC in any hearings, negotiations or discussions, or to bind the NAIC to any contract or agreement, unless the NAIC Chief Executive Officer or NAIC Chief Operating Officer expressly and specifically gives such authority in advance and in writing.

4. **TERM**

The term of this Agreement shall begin (beginning date) and end on (end date). The Parties may extend the term by written mutual agreement. In the event that the term of a Statement of Work extends beyond the termination of this Agreement, then this Agreement shall be automatically extended for the duration of the term of such a Statement of Work.

5. **TERMINATION**

Consultant's retention and status as Consultant to the NAIC shall be terminated: Automatically on the death or dissolution of Consultant; or Automatically, upon Consultant becoming physically or mentally disabled or otherwise incapacitated in some manner which prevents the full performance of duties under this Agreement; or thirty (30) days after either the NAIC or Consultant receives written notice from the other Party of intention to terminate this Agreement. No cause need be specified by either Party for the termination.

6. **BACKGROUND CHECKS**

All Consultants performing work under this Agreement either onsite or by accessing NAIC systems remotely shall be subject to background checks, including but not limited to criminal background checks. The background checks shall be provided by the Consultant Company upon agreement with the NAIC as to form and substance for any Consultants performing under this Agreement provided such checks are completed no sooner than one (1) year prior to the Consultant beginning work under this agreement. The Consultant Company shall send the background check results to the NAIC People Operations and Engagement's Employee Engagement Coordinator. In the event the individual Consultant's Company refuses to provide a copy of the background check results, a letter from the Consultant Company to

the NAIC may be substituted. Such letter must indicate that a criminal records history search has been completed (which covers federal, state and county searches) within the last year for the individual Consultant and the results did not contain any of the following notations: i.) being found on the National Sex Offender Registry; ii.) Having a misdemeanor conviction for any of the following: illegal use/possession of weapons/explosives; violence, domestic violence, assault, battery, arson, resisting police; sex crimes including stalking, indecent exposure, prostitution, rape, sexual assault, harassment; theft, robbery, burglary, embezzlement, fraud, larceny, forgery, dishonesty; computer crimes, hacking, software infringement; iii.) Any felony convictions. In the event Consultant is unable to provide the NAIC with a background check, and upon the NAIC's agreement, the NAIC will conduct the background check. For background checks conducted by the NAIC or its assigns, all Consultants agree they will complete all necessary documents to complete the checks, including but not limited to waivers, requests for information which may include but is not limited to information regarding date of birth, social security number or driver's license number, work history, or other such documents as may be requested.

7. **COMPENSATION AND BENEFITS**

Consultant shall be paid (indicate amount(s) and methods of payment). This compensation shall be paid (indicate timing of payments) and upon presentation of a bill and approval by the NAIC that all services have been provided by the Consultant. Consultant shall not be on the regular NAIC payroll. Consultant shall not receive any NAIC employee benefits, including but not limited to medical health insurance, long-term disability insurance, group life insurance, and vacation benefits, even if Consultant is retroactively or otherwise classified as a NAIC employee for any purpose. The NAIC shall not deduct, withhold or pay taxes on the amounts paid to Consultant. Consultant shall be solely responsible for any and all tax obligations of the Consultant arising from or relating to this Agreement, including but not limited to all city, state and federal income taxes, social security withholding tax and other self-employment tax incurred by the Consultant, and shall indemnify and hold harmless the NAIC against any liabilities, costs and expenses suffered or incurred by the NAIC as a result of any determination by the Internal Revenue Service or any other taxing or other authority that any Consultant is an employee of the NAIC.

8. **EXPENSES**

The NAIC shall pay reasonable and necessary expenses incurred by Consultant, including reasonable travel and travel-related expenses, provided the NAIC has approved such travel in writing prior to the date of travel. The NAIC shall not be obligated to pay for travel or travel-related expenses not approved in writing by the NAIC prior to the date of travel. In incurring and submitting expenses, Consultant shall comply with the NAIC's guidelines defining authorized expenses and proper documentation of expenses as set forth in the NAIC's Guidelines for Reimbursement of NAIC Travel Expenses). Within ten (10) days after Consultant completes the travel, Consultant shall submit an invoice with appropriate documentation to the NAIC.

9. **CONFIDENTIALITY OF INFORMATION AND REGULATORY SECRETS OF THE NAIC AND STATE INSURANCE DEPARTMENTS**

Except as otherwise provided herein, each Party expressly undertakes to retain in confidence all information and know-how transmitted to the other that the disclosing party has identified as being proprietary and/or confidential or, by the nature of the circumstances surrounding the disclosure, ought in good faith to be treated as proprietary and/or confidential, and expressly undertakes to make no use of such information and know-how except under the terms and during the existence of this Agreement. However, neither Party shall have an obligation to maintain the confidentiality of information: (i) received rightfully from a third party prior to its receipt from the disclosing party; (ii) the disclosing party has disclosed to a third party without any obligation to maintain such information in confidence; or (iii) independently developed by the obligated party. Further, either Party may disclose confidential information as required by governmental or judicial order, provided such Party gives the other Party prompt written notice prior to such disclosure and complies with any protective order (or equivalent) imposed on such disclosure.

In addition to the foregoing, Consultant shall treat all NAIC, NIPR and state insurance department information including but not limited to source codes, design architecture, product adaptation materials, marketing strategies, customer lists, financial

information, state data, trade secrets and unpublished information,

as confidential information and shall not disclose, disseminate, or distribute such materials to any third party without the NAIC's prior written permission. Notwithstanding this prohibition, Consultant shall not be held criminally or civilly liable for disclosing trade secret information when such disclosure is made in confidence to a federal, state or local governmental official or to an attorney for the sole purpose of reporting or investigating a suspect violation of law or is made in a complaint or other document filed in a lawsuit or other proceeding if such filing is made under seal. Each Party's obligation under this Section shall not continue if the information protected hereby falls into the public domain through no fault of the obligated Party.

Failure to comply with this Section shall constitute a material breach of this Agreement and the Agreement may be terminated as a result.

10. **CONFLICT OF INTEREST**

In the interest of fulfilling the objectives and goals of the NAIC even the appearance of impropriety must be avoided. Therefore, Consultant shall not have, and by executing this Agreement warrants it does not have, any interest with or adverse to the NAIC, any state insurance department, or NAIC member, including representation of clients or himself/herself in matters before any department, or NAIC member, regardless of capacity, or other relations with the NAIC, a state department or NAIC member as to create a conflict of interest or the appearance of such.

Consultant acknowledges it has reviewed the Conflict of Interest Policy of the NAIC and certifies no such conflict exists, except as may be disclosed. The Consultant shall complete the NAIC CONFLICT OF INTEREST FORM. If a conflict is disclosed prior to or during the term of this Agreement, the Chief Executive Officer or Chief Operating Officer of the NAIC shall review the conflict and may waive the conflict upon proper documentation or as otherwise may be appropriate.

11. **OWNERSHIP OF WORK PRODUCT**

Consultant and its personnel will be expected to do creative work that may lead to inventions, discoveries, developments, modifications, procedures, ideas, innovations, systems, programs, know-how, literary properties, or other work products (collectively the "Work Product"). Consultant agrees that the Work Product of Consultant and its personnel during their work for the NAIC shall be the sole and exclusive property of the NAIC. Consultant and its personnel hereby irrevocably assign to the NAIC all rights to the Work Product. To the extent that any such Work Product is copyrightable, it shall be deemed to be a "work for hire" within the meaning of the Copyright Law. Consideration for such assignment is hereby acknowledged. The NAIC may, at its discretion, affix such notices and take such steps as it deems reasonably appropriate to secure and perfect copyright protection in the Work Product anywhere in the world. Consultant also acknowledges any other intellectual property rights in the Work Product, including trademark, belong solely to the NAIC. Consultant and its personnel shall take all such further steps as may be reasonably requested by the NAIC to perfect the NAIC's sole and exclusive ownership of the Work Product.

12. **PUBLICITY**

Consultant agrees not to use the name of the National Association of Insurance Commissioners or the term "NAIC" in any form or attribution in connection with any solicitation, publicity, advertising, endorsement or other promotion without the express prior written permission of the NAIC.

13. **INSURANCE COVERAGE**

Consultant shall procure and maintain, at its own expense, Comprehensive General Liability coverage and Umbrella and/or Excess Liability coverage with minimum total limits of $2,000,000 combined and $1,000,000 single event limit for property damage and bodily injury. [Next sentence - If applicable] Consultant shall maintain cyber insurance coverage in the amount of $1,000,000 as related to the scope of work anticipated by this agreement. Consultant shall procure and maintain for itself and its employees all insurance coverage required by federal, state or local law, including Workers' Compensation insurance and a minimum of $500,000 in Employer's Liability coverage. Consultant shall name the NAIC as additional insured, as respects this particular Agreement in its Comprehensive General Liability and Umbrella and/or Excess Liability coverage. Consultant shall furnish to the NAIC Certificates of Insurance evidencing all of the above-required coverages and naming the NAIC as

additional insured as required. Said certificate(s) shall contain a provision whereby thirty (30) days' notice must be received by the NAIC prior to cancellation, termination or a material change in coverage by either Consultant or Insurer.

Consultant shall provide or offer to provide minimum essential health care coverage (as defined in the Affordable Care Act and the associated Internal Revenue Code and regulations) for any individual Consultant placed at the NAIC.

14. **INDEMNIFICATION**

Consultant hereby agrees to defend, indemnify and hold harmless the NAIC, its successors and parents, subsidiaries and affiliates and their employees, officers, directors and members, from and against any loss, damage, injury, costs or expenses (including reasonable attorney's fees) arising out of or caused by the acts or omissions of Consultant or its employees or agents. Consultant shall also indemnify the NAIC for any taxes, penalties, or other liabilities assessed against Consultant or NAIC under Internal Revenue Code §4980H with respect to any individual Consultant placed at NAIC due to Consultant's failure to (i) offer "minimum essential coverage" under an "eligible employer-sponsored plan" each within the mean of Code §5000A(f)(1)(B); or (ii) offer coverage that is not "affordable" or fails to provide "minimum value" within the meaning of Code §36B(c)(2)(C) and related regulations.

15. **RETURN OF PROPERTY**

Upon the termination of this Agreement for any reason whatsoever, the Consultant agrees to end all further use and utilization of, and to immediately return to the NAIC, in good condition, all property of the NAIC including, without limitation, any property or equipment furnished by the NAIC or created or prepared by the Consultant, either alone or jointly with others, pursuant to this Agreement. Without limiting the generality of the foregoing, all correspondence, reports, records, charts, materials and other similar data pertaining to the business, activities, research and development, confidential information or intellectual property of the NAIC that are collected by Consultant, including any and all copies or reproductions thereof, as well as any computer equipment, passwords, access cards, and RSA tokens provided to the Consultant by the NAIC shall be delivered promptly to the NAIC upon termination of this Agreement. In the event that any such items are not so returned, the NAIC will have the right to (a) charge the Consultant for all reasonable damages, costs, attorneys' fees and other expenses incurred in recovering such property, and (b) offset any such expenses against any amount otherwise payable by the NAIC to the Consultant under this Agreement or otherwise.

16. **ARBITRATION**

Except for claims relating to copyright, trademark issues, trade secrets and confidentiality, any controversy or claim arising out of or relating to this Agreement or the breach thereof shall be settled by arbitration to be held in Kansas City, Jackson County, Missouri, in accordance with the Commercial Arbitration Rules of the American Arbitration Association, and judgment upon the award rendered by the Arbitrator may be entered in any Court having jurisdiction thereof. All arbitration proceedings shall be conducted in the English language. Notwithstanding the foregoing, either party will have the right to seek relief in any court of competent jurisdiction to prevent or enjoin the misappropriation, misuse, infringement or unauthorized disclosure of its confidential information or intellectual property. Both Parties agree not to institute any litigation or proceeding arising from or relating to this Agreement against the other Party except as provided herein.

17. **GOVERNING LAW/FORUM/VENUE**

By adoption of the Parties, the State of Missouri, U.S.A. is deemed to be the place of contracting and by agreement of the Parties, any claim or controversy relating to this Agreement, its interpretation, performance or validity shall be construed and governed in accordance with the laws of the State of Missouri, without regard to its rules for choice of laws. The Parties herein agree the forum and venue for bringing court action as provided for in this Agreement shall be in Kansas City, Jackson County, Missouri.

18. **DATA ACCESS/CYBER HYGIENCE**

Dependent on data sources identified, the NAIC will retain responsibility for data and data access as well as appropriate cyber hygiene principals for data storage and administration.

19. **MISCELLANEOUS**

This Agreement supersedes all other agreements or representations either oral or written between the NAIC and Consultant. No waiver, alteration amendments or modification of provisions in this Agreement shall be binding unless subsequently made in writing and signed by duly authorized representatives of the NAIC and Consultant and appended hereto. If any provision or portion of this Agreement is deemed unenforceable or illegal by operation of law or otherwise, the remaining provisions in the Agreement shall remain enforceable and binding on the parties herein. Consultant's rights and obligations under this Agreement are not assignable. In the event that any signature is delivered via facsimile transmission or by e-mail delivery of a ".pdf" format file, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or ".pdf" signature page were an original.. The terms of provisions 9, 11, 12, 14, 15, 16, 17, 18 and 19 shall survive termination of this Agreement.

Do you agree to the NAIC Terms & Conditions? Please sign one.

| | | |
|---|---|---|
| YES | _____Signature | _____Date |
| NO | _____Signature | _____Date |
| If NO, | Please provide your Terms and Conditions of Services if you do not agree to the NAIC Terms & Conditions attached. | |