

July 29, 2010

Re: RFP 1402 – Impact Study of VM-20 Principal-Based Approach to Valuations

The National Association of Insurance Commissioners, a 501 (c) (3) not-for-profit organization, is soliciting proposals for an actuarial consulting firm to perform a study regarding the impact of the VM-20 Principal-Based Approach on reserves for life insurance products. The bid specifications and scope of work for this engagement is attached as Attachment 4.

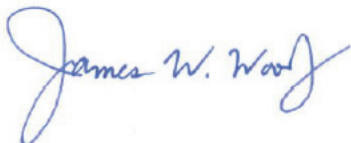
Your bid should clearly indicate your price including any ancillary service charges. In addition, your bid should highlight any contingencies that may exist and impact the final cost to the NAIC. The NAIC reserves the right to cancel this RFP, reject any or all proposals, request new proposals or request additional information. Additionally, the NAIC reserves the rights to further negotiate with any or all bidders.

A bidder's teleconference will be held on Thursday, August 5, 2010. Any questions you would like addressed during this teleconference should be directed to James Woody at jwoody@naic.org by noon on Wednesday, August 4, 2010 (please reference RFP 1402 in your subject line). If your entity intends to attend the bidder's teleconference, please identify who will represent your entity in the conference and provide this information to James Woody by noon on Wednesday, August 4, 2010. Details regarding the teleconference will be distributed early Thursday morning – please note that each entity is limited to two representatives on the teleconference.

Responses to this proposal are due on or before August 10, 2010, by 5 PM Eastern Time. Proposals with all required documents should be submitted to James Woody at jwoody@naic.org.

Please direct your questions about the bid requirements to me at Jwoody@naic.org or at 816-783-8015. Please contact Julie Wells at 816-783-8152 or Jwells@naic.org if you unable to reach me.

Regards,



James W. Woody
Sr. Manager Business &
Corporate Development – Central Office

Attachment 1

NAIC Bidder's checklist for RFP NAIC 1402

- Did you provide your Terms and Conditions if you do not agree with the NAIC Terms and Conditions?
- Sign and submit the Conflict of Interest form (Attachment 2).
- Please reference the RFP number on all your response documents.

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

Name _____ **Company** _____

Phone _____ **FAX** _____ **e-mail** _____

Attachment 2

NAIC CONFLICT OF INTEREST FORM
FOR RETENTION OF CONSULTANTS OR PURCHASES
SUBJECT TO BID – RFP 1402

Any *Entity* that desires to contract with the NAIC must complete this form, including vendors, 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

Attachment 3

STANDARD TERMS AND CONDITIONS for NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS PURCHASE ORDERS FOR SERVICES

As used herein, “Seller” means the person, firm, or corporation to whom this Purchase Order is issued; “Buyer” means the National Association of Insurance Commissioners, a nonprofit Delaware corporation.

1. **Acceptance of Terms and Conditions.** Seller agrees to perform the services (“Services”) described in any purchase order (“Purchase Order”) in accordance with these Terms and Conditions. Upon acceptance of a Purchase Order or upon commencement of Services, Seller shall be bound by these Terms and Conditions and all provisions set forth on the face of any applicable Purchase Order, whether Seller signs or otherwise acknowledges these Terms & Conditions or the Purchase Order, unless Seller objects to such Terms and Conditions in writing prior to commencing Services.

result of such cancellation. Seller may terminate this Agreement upon written notice to Buyer if Buyer fails to pay Seller within sixty (60) days after Seller notified Buyer in writing that payment is past due and that it intends to terminate the Purchase Order.
2. **Revocable.** This writing does not constitute a firm offer and may be revoked at any time prior to acceptance.
3. **No modification.** No agreement or other understanding in any way altering the terms, prices or conditions of the applicable Purchase Order or these Terms and Conditions shall be binding upon Buyer unless made in writing and signed by Buyer’s duly authorized representative.
4. **Termination.** Buyer may immediately terminate the Purchase Order upon written notice to Seller if Seller fails to perform or otherwise breaches these Terms and Conditions, files a petition in bankruptcy, becomes insolvent, or dissolves. Buyer may terminate the Purchase Order for any other reason upon thirty (30) days’ written notice to Seller. Upon receipt of notice of termination, Seller shall cease to provide Goods and/or perform Services pursuant to the Purchase Order. In the event of termination, Buyer shall be liable to Seller only for those Services satisfactorily performed before the date of termination, less appropriate offsets. Buyer shall not be subject to any charges or other fees as a
5. **Warranty of Services.** Seller represents and warrants that all Services shall be completed in a professional, workmanlike manner, with the degree of skill and care that is required by current, good, and sound professional procedures. Further, Seller warrants that the Services shall be completed in accordance with applicable specifications. Seller represents and warrants that the performance of Services hereunder will not conflict with, or be prohibited in any way by any other agreement or statutory restriction to which Seller is bound.
6. **Seller’s Indemnification.** Seller shall indemnify, hold harmless, and at Buyer’s request, defend Buyer, its officers, directors, agents and employees, against all claims, liabilities, damages, losses and expenses, including attorneys’ fees and costs of suit arising out of or in any way connected with any claim by a third party against Buyer alleging that the Services infringe a patent, copyright, trademark, trade secret or other proprietary right of third party. Seller shall not settle any such suit or claim without Buyer’s prior written consent. Seller shall also indemnify and hold harmless Buyer from any injury to person or property arising out of or caused by Seller’s performance of the Purchase Order. Seller agrees to pay or reimburse all costs that may be incurred by Buyer in enforcing this indemnity provision, including attorneys’ fees.

7. **Compliance with Laws.** Seller shall comply with all laws and regulations of federal, state and local governments, including without limitation, laws and regulations dealing with fair labor standards, civil rights, and public contracts. Seller further warrants that all Services performed pursuant to the Purchase Order have been produced or performed in compliance with such laws and regulations and Seller agrees to indemnify Buyer for any liability resulting from such noncompliance by the Seller.
8. **Price.** The price to be paid by the Buyer shall be the price contained in Seller's bid and/or the price stated on the face of the Purchase Order whichever is less. Seller represents the price contained in Seller's bid is no higher than Seller's current prices on orders by others for similar products or services under similar or like conditions and methods of purchase.
9. **Invoices.** Seller shall submit invoices on each Purchase Order after each delivery. Buyer shall not be charged sales tax and shall furnish a tax exemption certificate upon request. Discounts will be taken from the date of acceptance of services or date the invoice is received by Buyer whichever is later. Buyer shall retain the right of offset.
10. **Force Majeure.** Buyer shall not be liable for any failure to perform including failure to: (1) accept performance of Services, or, (2) take delivery of the Goods as provided if caused by circumstances beyond Buyer's control which make such performance commercially impractical including, but not limited to, acts of God, fire, flood, acts of war, government action, accident, labor difficulties or shortage, or the inability to obtain materials, equipment or transportation.

Seller shall not be liable for any failure to perform including failure to: (1) provide Services, or (2) deliver Goods as provided if caused by circumstances beyond Seller's control which make such performance commercially impractical including, but not limited to, acts of God, fire, flood, acts of

war, government action, accident, labor difficulties or shortage, or the inability to obtain materials, equipment or transportation.

11. **Insurance.** Seller shall be solely responsible for maintaining adequate auto, workers' compensation, unemployment compensation, disability, liability and other applicable insurance, as is required by law or as is the common practice in Seller's trade or business, whichever affords greater coverage. Seller shall carry Comprehensive General Liability coverage and Umbrella or Excess Liability coverage with minimum limits of \$1,000,000 per occurrence and \$2,000,000 in the aggregate for property damage and bodily injury. Upon request, Seller shall provide Buyer with certificates of insurance evidencing adequate coverage naming the Buyer as additional insured.
12. **Limitation of Liability.** IN NO EVENT SHALL BUYER BE LIABLE TO SELLER OR SELLER'S AGENTS, OR ANY THIRD PARTY FOR ANY INCIDENTAL, INDIRECT, SPECIAL, OR CONSEQUENTIAL DAMAGES ARISING OUT OF, OR IN CONNECTION WITH, THIS AGREEMENT, WHETHER OR NOT BUYER WAS ADVISED OF THE POSSIBILITY OF SUCH DAMAGE.
13. **Confidentiality.** In the event Seller gains written or oral confidential information of or from the Buyer, Seller agrees not to reveal to anyone or make use of such knowledge and information at any time for any purposes except as necessary in the course and scope of provision of Goods or performance of Services specified hereunder. Upon termination of the Purchase Order, Seller agrees to deliver to Buyer all such confidential information or work product belonging to Buyer.
14. **Assignability.** Seller shall not assign or subcontract this Purchase Order or any of its rights or obligations hereunder without the prior written consent of Buyer. Any assignment or transfer without such written consent shall be null and void.

15. **Publicity.** Seller shall not use Buyer's name in any form or attribution in connection with any solicitation, publicity, advertising, endorsement or other promotion.
16. **Survivability.** Any obligations and duties, which by their nature extend beyond the expiration or termination of this Purchase Order shall survive the expiration or termination hereof.
17. **Choice of Law.** This Purchase Order shall be construed in accordance with, and disputes shall be governed by, the laws of the State of Missouri.
18. **Severability.** If any provision of this Purchase Order shall be deemed to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

NAIC 1/08

Attachment 4

National Association of Insurance Commissioners Impact Study of VM-20 Principle-Based Approach to Valuation Request for Proposal - Third Party Consultant

Scope of Work

I. BACKGROUND AND PURPOSE

The Life and Health Actuarial Task Force (LHATF) of the National Association of Insurance Commissioners (NAIC) has, with the assistance of the American Academy of Actuaries, developed a principle-based valuation methodology for the calculation of reserves for life insurance products. The principle-based valuation requirements for life insurance products are detailed in the working draft Valuation Manual section VM-20 dated May 15, 2010. The draft Valuation Manual section VM-20 can be found on the NAIC web site at: http://www.naic.org/committees_lhatf.htm.

The NAIC seeks to understand the impact of the proposed valuation methodology on the U.S. life insurance industry as a whole, and specifically U.S. life insurance companies writing a mix of life insurance new business and U.S. life insurance products. The impact of the proposed valuation changes will be determined by comparing the reserves as calculated under the proposed principle-based valuation methodology with the reserves calculated under the current formula-based valuation methodology. This information will be valuable to insurance regulators, life insurance companies and state legislators as they contemplate adopting amendments to the Standard Valuation Law.

Results of this impact study will also assist the regulators in fine-tuning components of the principle-based valuation methodology as well as understanding how companies will determine anticipated experience assumptions, margins for adverse deviation and company variation using credibility theory, construction of asset and liability model cells, generation of economic scenarios taking into account sample sizes, sensitivity testing and computer run times. The impact study will also assist regulators in determining the best and most efficient reporting and documentation requirements.

II. IMPACT STUDY OBJECTIVE

The objective for this Impact Study is to perform modeling and analysis that examines:

- The effect of the proposed principle-based valuation methodology on U.S. life insurance products issued as new business, U.S. life insurance companies writing different product mixes of new business and the U.S. life insurance industry as a whole compared to the current formula based valuation methodology. A preliminary list of life insurance products to be included in the analysis can be found in Section III. The impact on the U.S. life insurance industry as a whole may need to be extrapolated based on the specific companies and products tested.

- The effectiveness of the Exclusion Tests (deterministic and stochastic) as a risk measurement tool in determining the ultimate level of minimum reserves that must be established based upon the underlying risks assumed.
- The effectiveness of the Net Premium Reserve Component as a floor for the minimum reserve.
- The effectiveness of the American Academy of Actuary's Economic Scenario Generator in exposing asset and liability risks embedded in a life insurance company's balance sheet given different future economic environments.
- The method of recognizing different forms of reinsurance, both proportional and non-proportional agreements, determination of pre and post reinsurance amounts and reinsurance reserve credits.
- The most effective processes in understanding how companies will determine anticipated experience assumptions and establish margins for adverse deviation and company variation using credibility theory and sensitivity testing.
- The most effective processes in understanding how companies determine the level of granularity used in combining or grouping assets and liabilities into model cells so that all major risk characteristics are reflected or captured.
- The most effective processes in understanding how companies determine the number of economic scenarios that should be modeled so results have statistical confidence. Such processes may take into account scenario reduction or stratified sampling techniques.
- The most effective processes in understanding how companies use sensitivity testing in identifying the major risk components of a company's balance sheet.
- The most effective reporting and documentation of reserve results, modeling assumptions, experience assumptions, margins and sensitivity testing.
- The most effective Regulatory benchmarks and/or metrics to be used in determining a company's compliance with the principle-based valuation provisions of the standard valuation law and valuation manual.
- The ease of implementation of the proposed methodology taking into account human resources, information technology resources, computer modeling run times and required sensitivity analysis. The ease of implementation should take into account available scenario reduction techniques or processes that may be implemented.
- Areas where further refinements or changes, if any, to the methodology are needed or suggested based in the results of the modeling or analysis to improve the risk measurement functionality of the methodology.

- Areas where further clarification of the proposed methodology or processes are needed in order to facilitate a smooth implementation.

Results will be summarized into a report made available to the NAIC. The report is not to include the Consultant(s) opinions on the recommended theory.

The Consultant(s) will work closely with the Regulatory Testing Subgroup (RTS), the Profession and Industry Liaisons (PIL) and the Actuarial Task Forces (ATFs) to meet the impact study objectives.

The Regulatory Testing Subgroup (RTS) will provide management, oversight and direction for the project, including recruiting ATFs. The RTS will consist of members of LHATF representing the states of Kansas, Alaska, California, Florida, New York, Ohio and Texas.

The Profession and Industry Liaisons (PIL) will consist of representatives of the Life Reserve work group (LRWG) of the American Academy of Actuaries, and representatives of the American Council of Life Insurers (ACLI). RTS and the Consultant(s) will work with PIL on potential changes to the methodology or any alternatives to be studied.

ATFs are working groups comprised of company actuaries who will model the proposed valuation methodology and any alternatives using new business issued in the last 12 months and projected new business for each future modeling year consisting of actual insurance products that are currently being issued by their individual insurance companies. They would also identify areas where guidance or clarification is needed. The ATFs have the assignment of producing the information that the Consultant(s) will utilize in producing the report.

The Consultant(s) role will be to coordinate the project on a day to day basis, collaborate with the RTS in finalizing the list of products and companies to be modeled and the instructions to the ATFs; collaborate with the RTS and PIL on any methodology changes or alternatives to be tested; keep the RTS informed of the project progress and any issues that arise, aggregate and analyze the results of the ATFs, validate the work of the ATFs; fill modeling holes (if any), and prepare a summary report containing the results of the study that will be useful to the NAIC.

To provide timely information to the NAIC, it is expected that the project will be completed no later than December 31, 2010.

III. PRELIMINARY PRODUCT LIST

The impact study will include all products subject to the scope of VM-20 which includes, but not necessarily is limited to, the testing of the following life insurance products:

- Term Insurance (various types) with no return of premium benefits
- Term Insurance with return of premium benefits
- Universal Life with no secondary guarantee (various types)
- Universal Life with secondary guarantee (various types)

Variable Universal Life with no secondary guarantee (various types)
Variable Universal Life with secondary guarantee (various types)
Participating and Non-participating Whole Life (various types)

IV. SCOPE OF PROJECT

It is anticipated up to sixty companies will be requested to participate in this project. It is envisioned each company will have an Actuarial Task Force (ATF) responsible for compiling the reports in accordance with the approved valuation methodology and will coordinate with the Consultant(s) to address any questions that may arise.

V. PROPOSAL

For final evaluation of proposals, it is important that consultants comment on their ability to meet the required time schedule.

To facilitate the evaluation of proposals, the following information should be submitted:

- A. Resumes of the person(s), expected to participate on the impact study, indicating how their background, education and experience bear on their qualifications to undertake the project. It is expected that the person(s) have expertise in modeling and valuing life insurance company assets and asset cash flows as well as modeling and valuing life insurance company liabilities and liability cash flows. If more than one person is involved, a single individual should be designated as the lead consultant and primary contact. The person submitting the proposal must be authorized to speak on behalf of a firm on whose behalf the proposal is submitted.
- B. An outline of the approach to be used, emphasizing issues that require special consideration. Details should be given regarding the techniques to be used, collateral material to be consulted, and possible limitations of the analysis.
- C. Cost estimates for the study. We expect to reach agreement on a fixed cost for this project with the consultant based on the number and size of companies included in this study. Your cost estimate should be based on the number of companies assumed to participate in this study – as many as 60 companies may participate in this study or as few as 17 companies; therefore please provide a cost estimate for a study of 60 companies another cost estimate for a study of 17 companies. The final estimate will be mutually adjusted based on the final number of companies participating.

The 60 company scenario assumes the following composition: entities with over \$100M of premiums – 42 companies; entities writing competitive term – 6 companies; entities writing simplified issue – 7 companies; entities writing ROP term – 4 companies; and additional reinsurers – 1 company.

The 17 company scenario assumes the following composition: entities with over \$100M of premiums – 10 companies; entities writing competitive term – 3 companies; companies writing simplified issue – 2 companies; entities writing ROP term – 2 companies; and additional reinsurers – no companies.

While cost will be a factor in the evaluation of the proposal, it will not necessarily be the deciding factor.

- D. A schedule for completion of the impact study, identifying key dates or time frames for project completion and report submissions.
- E. Ideas regarding the form and distribution of the final report, both for immediate release and for permanent reference. The Consultant will be expected to present the results of the project at NAIC meetings should the opportunity arise.
- F. Other related factors that give evidence of a proposer's capabilities to perform in a superior fashion should be detailed.

VI. PROJECT DELIVERABLES

Given the importance of this project and its time constraints, it is envisioned that a Final Report will be completed no later than December 31, 2010. This Report will address the items identified in Section II – Impact Study Objectives. In addition, the consultant will be expected to present the results of this project at the NAIC meeting if requested to do so.

VII. SELECTION PROCESS

The NAIC will be responsible for the selection of the Actuarial Consulting Firm that will be awarded this project to be funded. Input from other knowledgeable individuals also may be sought, but the NAIC will make the final decision.

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

- Qualifications of participants coordinating the study
- Viability of methodologies and approach to study
- Completeness of response in addressing all the issues raised in Section II
- Price (including any identified ancillary fees)

VIII. CONFLICTS OF INTEREST

The NAIC recognizes that, given the broad scope of this project, any consultant with the experience reasonably necessary to perform this study may have certain conflicts of interest based upon past associations with the companies tested. These conflicts of interest will not automatically disqualify the consultant, but the consultant must have verifiable policies and procedures in place designed in compliance with established industry standards to address conflicts of interest issues that may arise in connection with this study.

IX. CONDITIONS

The NAIC reserves the right to not award a contract for this impact study. Reasons for not awarding a contract could include, but are not limited to, a lack of acceptable proposals or 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 intends to publish the results of this impact study. The impact study will be considered work-for-hire and all rights thereto belong to the NAIC. However, appropriate credit will be given to the Consultant(s).

X. QUESTIONS

Any questions regarding the Scope of Work should be directed by fax, or e-mailed to: John Engelhardt (fax: 816-460-7600; e-mail: Jengelha@naic.org). Questions related to any other matter should be directed to: James Woody (fax: 816-460-7509; e-mail: Jwoody@naic.org)