

February 18, 2021

Re: RFP 2077 – Assessment of commercial mortgage backed securities (CMBS)

The National Association of Insurance Commissioners (NAIC), a 501(c)(3) not-for-profit organization, is soliciting proposals for **a financial vendor who would produce valuations for state insurance regulators to set risk-based capital for commercial mortgage backed securities (CMBS) owned by U.S.-domiciled insurance companies**. The bid specifications for this project are contained within the attached Request for Proposal (RFP). This RFP is being issued contemporaneously with a similar RFP for services related to residential mortgage backed securities (RMBS).

Consistent with the NAIC governance policy, the NAIC periodically submits third-party contracts to competitive rebidding. Therefore, the NAIC is seeking proposals from firms that can model expected losses of securities owned by U.S.-domiciled insurance companies as described more fully below.

### Tentative Project Schedule

<u>2/18/2021</u>	Release of RFP
<u>3/01/2021</u>	Submission of questions to Proposals@naic.org
<u>3/15/2021</u>	Questions & Answers provided to all bidders
<u>3/29/2021</u>	Proposal due to NAIC
<u>4/05/2021</u>	Phase I: Finalists Selected
<u>4/12/2021</u>	Phase II: Test portfolios to be sent out
<u>4/23/2021</u>	Test portfolio results due to NAIC
<u>By 5/5/21</u>	Calls to discuss test portfolio results
<u>Late May</u>	Selection of vendor

Applicants must meet the following qualifications for consideration:

- Be a nationally recognized entity with a minimum of five years' experience in performing valuations of complex structured securities, specifically CMBS.
- Have the capability to immediately assign sufficient qualified staff to this project and devote them to this endeavor until it is completed.
- Have a methodology that can be quickly modified and implemented to evaluate approximately 6,000 CMBS, with flexibility to accommodate more if acquired by the insurance industry.
- Have access to loan-level details for the universe of CMBS.
- Have the data processing capability required to generate these valuations by mid-December of each year of the contract.
- Have safeguards in place to avoid conflicts of interest, both in fact and appearance.
- Have the capability to model new issuance, actual and prospective CMBS.
- Be a financially sound entity.

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

Any questions regarding the bid specifications should be directed to [Proposals@naic.org](mailto:Proposals@naic.org).

Respectfully,

James W. Woody  
Chief Financial Officer

CC: Andy Beal, NAIC Chief Operating Officer/CLO  
Donna Powers, NAIC Strategic Business Initiatives Assistant Director

**Request for Proposal**  
**Pertaining to the Modeling of Certain Securities**  
**Owned by U.S.-Domiciled Insurance Companies**  
**For the**  
**National Association of Insurance Commissioners (NAIC)**

**February 2021**

**I. Overview of Proposal**

The National Association of Insurance Commissioners (NAIC) is seeking a vendor who can model expected losses on commercial mortgage backed securities (CMBS) that will be used to assess the risk of such securities owned by U.S.-domiciled insurance companies.

**II. General Background Information**

Overview of the NAIC – The NAIC is a private, 501(c) (3) not-for-profit corporation wholly owned by its members. The members of the NAIC are the chief insurance regulatory officials (insurance department commissioners, directors, and superintendents) of the 50 states, the District of Columbia and the five U.S. territories. The NAIC operates from three locations: an Executive Office in Washington, D.C.; a Central Office in Kansas City, MO; and the Capital Markets and Investment Analysis Office (IAO) in New York City. The phrase NAIC or Association is used to refer to the corporate entity.

NAIC Development of Regulatory Policy – The NAIC’s development of regulatory policy is performed by a number of standing committees, each of which is composed of NAIC members. NAIC standing committees may maintain one or more task forces assigned to develop expertise in a specific area of regulation. In turn, task forces may maintain one or more working groups assigned to study and recommend solutions to specific technical assignments.

The NAIC committee with responsibility for issues affecting financial condition of insurers, and hence over RMBS and CMBS risk assessment and valuation issues, is the Financial Condition (E) Committee. Initial responsibility for promulgating recommendations for NAIC methodology to assess investment risk, value of securities and other related guidance is delegated by the Financial Condition (E) Committee to the Valuation of Securities (E) Task Force (VOSTF).

The SSG – The Structured Securities Group (SSG) of the NAIC is assigned to assist in supporting the work of the VOSTF. The work product delivered by the successful bidder will be documented and delivered to the SSG staff. This approach reflects the need to ensure that financial values used to drive regulatory processes are disseminated by an organization controlled by and directly accountable to state insurance regulators. The SSG will have responsibility for understanding how analytical methodologies, processes, and outputs relate to regulatory objectives; for structuring a process to consider questions and issues raised by insurers; for conducting a quality assurance process for the vendor’s work product; and for

considering what changes to assumptions and inputs should be made to accommodate changes in the market, all subject to approval by the VOSTF.

To accommodate this approach, the successful bidder will agree to provide appropriate training in the methodology used to develop the deliverable to identified SSG staff. In addition, the VOSTF may wish to hold one or more public meetings to explain the methodology used to produce the deliverable to the insurance industry and to capital market participants, including broker dealers who buy from and sell CMBS to insurers. The goal of such public meetings would be to permit the public to understand the operation of the methodology, how model outputs are used to set NAIC Designations and/or RBC charges, and other similar issues of importance to interested parties. The successful bidder responding to this RFP will, if requested, assist the SSG in its preparation for such public meetings, and attend and participate in such public meetings.

### **III. Description of Products and Services Required Under This RFP**

Annual Surveillance. For year-end 2021, the selected vendor will estimate the risk of loss for each CMBS held by insurers. This will be done using loan-level details and a credit model that will provide for current and expected defaults and loss severities applied to underlying assets. The expected losses for each security will then be mapped to a table with corresponding values for each of the five NAIC Designation breakpoints.

The assumptions and inputs used in the model for the rating process will be agreed upon between the successful bidder and the NAIC. In its response to this RFP, the vendor will identify the inputs required to run its model. The vendor must be able to incorporate macro-economic forecasts into its model as provided by the NAIC. The vendor will need to be able to run multiple scenarios and probability weight the results.

The vendor will model each security on an initial list of CUSIPs to be provided by the NAIC on or about November 15 (the "Cutoff Date"). In addition, the NAIC will also provide an additional list at the beginning of the following year of securities acquired by insurers between the Cutoff Date and December 31. The vendor will also model each investment grade security (as determined at the time of issuance) in securitizations of which the foregoing Insurance Company holdings are a part ("CMBS-X"). The project deliverable will be a table of breakpoints or as otherwise required by the NAIC<sup>1</sup>

Bidders may visit the NAIC website to find more information about the annual surveillance process: [http://www.naic.org/structured\\_securities/index\\_structured\\_securities.htm](http://www.naic.org/structured_securities/index_structured_securities.htm).

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<sup>1</sup> At present, two alternative changes are possible: 1) a direct mapping of the expected loss to the Designation; and 2) the addition of NAIC Designation Categories. The latter change would involve the broadening the number of different breakpoints from 5 to 19 and Designations from 6 to 20.

The website contains a great deal of valuable information, including the macro-economic assumptions and timeline for the 2020 and earlier Year-end Valuation processes.

Mid-Year Updates. In addition to modelling Insurance Company holdings on an annual basis, the selected bidder may be asked to produce mid-year updates.

RTAS Support. Regulatory Treatment Analysis Services (“RTAS”) permits insurance companies and others to ascertain the analytical conclusion the SSG would take (or the recommendations it would make to NAIC members) with respect to credit and other investment risks in a security and the regulatory treatment that corresponds to those analytical conclusions under the NAIC regulatory framework. With respect to RMBS and CMBS, RTAS allows issuers to ascertain the likely regulatory treatment of securities, prior to their closing.

The support takes the form of processing the loan-level collateral of the proposed transaction through the vendor’s credit model and delivering the periodic results to the NAIC. SSG handles the transaction structuring and legal analysis. Crucially, the RTAS process is time sensitive and may require a number of data iterations.

#### **IV. RFP Specifications**

##### **Phase I**

1. Describe your company and your expertise and experience completing projects such as described in this RFP. Include a list of representative clients, if possible, with requirements similar to that of the NAIC as expressed in this RFP. If it is not possible to provide such a list, please indicate why. Finalists will be asked to provide references.
2. Describe how your company would address and safeguard against potential conflicts of interest with other clients or other business areas such as asset management. Specifically, what is done to protect information learned or generated from a client engagement, and what systems are in place to protect the client relationship?
3. Describe your information security processes and systems that will be used to maintain the confidentiality and restrict access to the NAIC’s information.
4. Describe your expected methodology and process; analytic model(s), including inputs, outputs and how they can be used in risk measurement; frequency of model and input updates; and how your methodology differs from and/or is superior to other methodologies. Describe third party data and software which you employ. Describe your timeline from input delivery to final product.
5. Describe the flexibility of your approach to accept macro-economic inputs from third parties. Additionally, describe your ability to provide the NAIC with intermediate results (e.g, loan-level detail) and assist the NAIC with its quality assurance efforts.

6. Describe your capabilities in running multiple scenario analyses. Additionally, describe the method for determining the various scenarios, the probability of each scenario and the method and stage at which you integrate the various scenarios into the final result.
7. Currently, the NAIC uses four pro-cyclical macroeconomic scenarios to evaluate CMBS. However, we are interested into potentially transitioning into a through-the-cycle approach. Describe a potential through the cycle approach you would propose.
8. Describe the general approach used by your credit model, including the variables used. Describe the process of parameterization and back-testing of your model, including the dataset used to parameterize the model and the frequency of re-parameterization.
9. Describe your quality control processes with respect to data, inputs, intermediate and final results, and use of proprietary and third-party models.
10. Describe the source and the reliability of your data for loan-level information, and loan-level analysis on CMBS pools.
11. Describe your non-model credit process. Describe the types of non-remittance report information used in the credit process, how often obtained and how adjustments are made.
12. Describe the waterfall model used.
13. Describe your current library of modeled transactions and how that relates to the universe of securities owned by insurers.
14. Describe your analytical infrastructure—i.e., the various components that you consider essential to conduct the requested analysis of approximately 6,000 CMBS. Clearly identify any deadlines or other constraints that the NAIC should be aware of, specifying any activity to be conducted by the NAIC that would have a material impact on your ability to perform in accordance with this timeline.
15. Describe your capability to provide RTAS Support Services, as described above.
16. Describe the process by which the CUSIP-level analysis you will conduct under this RFP is documented and your ability and willingness to either store that document on behalf of the NAIC or to send it to the NAIC for storage. Also describe any special software, systems or equipment that would be necessary to save the data into a usable data file or image.
17. List the fees for your proposal. You should assume a 4-year contract with optional 2 one-year extensions. Also note any costs or fees that the NAIC would, should or could incur as part of the overall project beyond those associated with the services identified herein. Specifically, list separate fees for:
  - a) Year-end Modeling, including separate dataset sales
  - b) Mid-year Updates
  - c) RTAS Support
  - d) Please note if you are also submitting a proposal for RMBS and if so, if there is a discount for selecting your firm for both categories of modeling

## **Phase II**

Bidders selected to continue through to Phase II will be asked to analyze a small number of transactions. The dual goals of Phase II are a) confirmation of the **quality** of bidder's results; and the b) bidder's **capacity** to produce such results within a limited timeframe.

Bidders will have up to 10 business days to complete the analysis. These results should include your assumptions, inputs, and the loan-level analysis and waterfall results for each tranche for selected assets.

**V. Timeline**

Begin Phase I: Release of RFP	February 18
Questions due to NAIC from bidders	March 1
All questions and answers provided to bidders	March 15
Proposals due to NAIC	March 29
Completion of Phase I: Finalists selected	April 5
Begin Phase II: Test portfolios sent to finalists	April 12
Test portfolio results due from finalists	April 23
Calls with final bidders to discuss test portfolio results	By May 5
Completion of Phase II: NAIC selection of vendor	Late May

**VI. Response Requirements**

As an organization composed of regulators, it is extremely important that the NAIC’s selection process be both equitable and transparent. Respondents to this RFP are asked to include the following items in the proposal. Please reference RFP-2077 on all parts of the proposal.

**Section I – Company Overview**

- Concise description of the company, including a brief history as it relates to projects of this type.
- Detailed description of capabilities and experience of the firm to perform the requirements of this RFP. The description should cover the following qualifications:
  - Have at least five years’ experience in valuing structured securities, specifically CMBS.
  - Have sufficient staffing and resources to permit immediate assignment and accommodate timely completion of this project.
  - Be a financially sound entity.
- Three to five references where you have provided services similar to this proposal.
- Brief biographies of the team members who will be providing this service to the NAIC. Describe their background and discuss their expertise in providing this type of service.
- Identify any known or potential conflicts of interest that may exist. For example, if your firm currently provides modeling services to any domestic insurance company, please disclose this relationship and level of service, along with your internal procedures relating to conflicts of interest.

**Section II – Services Provided**

- Brief outline of the services the company offers as it relates to requirements outlined in this RFP.
- Detailed responses to the questions asked in Section IV of this RFP.

**Section III – Additional Required Documentation**

- W-9 Form (Rev. 10/2018)

- 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 A)
- Signed NAIC Confidentiality Agreement (see Appendix B)
- Vendor Terms and Conditions

Any questions regarding the requirements outlined in the RFP should be directed to [Proposals@naic.org](mailto:Proposals@naic.org). Questions related to any other matter should be directed to NAIC Chief Financial Officer Jim Woody at [JWoody@naic.org](mailto:JWoody@naic.org).

**VII. Proposal Submission**

Proposals must be received by 5 PM Central on Monday, March 29, 2021, via email to [Proposals@naic.org](mailto:Proposals@naic.org).

The NAIC reserves the right to accept or reject any or all proposals, and to ask any or all respondents for such additional information as may be deemed necessary, and to waive any or all irregularities in a proposal. All responses become the property of the NAIC, and one copy of each proposal will be retained in the NAIC’s files. The award of the professional services agreement is at the sole discretion of the NAIC.

The results generated using the methodology covered by this proposal become the exclusive property of the NAIC and is to be used only for the purposes of establishing the appropriate levels of RBC for U.S.-domiciled insurance companies.

**VIII. Selection Criteria**

The following criteria will be utilized in the review process to select the successful bidder:

- Qualifications and Company Reputation – Expertise and capabilities of vendors in risk management and measurement of CMBS and relevant risk-based capital (RBC) issue in the insurance industry, name recognition, and reputation in the financial market and regulatory framework
- Viability of Process and Continuity – Acceptance of risk measurement approach and methodologies of the vendor as well as its applicability to the current NAIC process
- Ease of Implementation – Readiness of infrastructure, system, and human resources for practicality of the risk measurement process while reflecting the NAIC’s views on the general economy, the capital markets, commercial real estate and housing markets, as well as on-time delivery of viable solution
- Post-Transaction Support – Reliability of the vendor and willingness to provide post-transaction supports for both technical and analytic issues when needed on the Year-End Modeling as well as for RTAS
- Contractual Requirements and Pricing – The ability to agree to contract terms quickly and reasonably, and the absolute dollar amount for proposed solution
- Quality of Analytics (for bidders in Phase II) – Quality, transparency and depth of the results produced by the vendor



## NAIC CONFLICT OF INTEREST FORM

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 or to a state insurance regulator **to affect the bidding and selection process** for this contract.
- *Entity* will not provide or receive gifts, favors, membership points or any other benefits to any employee or representative of the NAIC or to a state insurance regulator **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*

### DISCLOSURE

\_\_\_\_\_  
*Print Name & Company Name*

#### DISCLOSURE OF POTENTIAL CONFLICT

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
*NAIC Executive Approval*

\_\_\_\_\_  
*Date*

**MUTUAL CONFIDENTIALITY AGREEMENT NAIC RFP 2077**

This MUTUAL CONFIDENTIALITY AGREEMENT (“Agreement”) is entered into as of \_\_\_\_\_, 2021 (“Effective Date”), by and between the National Association of Insurance Commissioners (“NAIC”) and \_\_\_\_\_ (“Vendor”).

**In connection with Vendor’s response to NAIC RFP 2077 - Assessment of Commercial Mortgage Backed Securities (RFP 2077), NAIC and Vendor desire to establish the obligations of each party as to Confidential Information.**

**THEREFORE, it is mutually agreed as follows:**

During the bidding and contract negotiation process the NAIC and Vendor (“The Parties”) may access or receive information which relates to NAIC RFP 2077 and to the business activities or operations of the other party and which may include, but is not limited to: documents and information related to the selection of a vendor and any subsequent contractual negotiations, systems, practices, processes, computer systems, hardware, software, programs, financial information, trade secrets or other technical data (collectively “Confidential Information”). These non-disclosure provisions shall not apply to Confidential Information that: (i) is or becomes generally available or known to the public other than as a result of a disclosure in violation of this Agreement; (ii) is developed independently; (iii) is rightfully received without obligation of confidentiality from a third party or (iv) is required to be disclosed pursuant to court order.

The Parties shall only disclose Confidential Information to their employees, agents or representatives who need to know such information, who are specifically identified and who are authorized by the NAIC to receive such information. Such information shall only be shared with authorized persons in order to perform obligations in connection with the Vendor’s response to RFP 2077 and potential establishment of a business relationship.

This Agreement and any Confidential Information used or disclosed hereunder shall not be construed as granting, expressly or by implication, either party any rights by license or otherwise to any Confidential Information disclosed by the other party.

The term of this Agreement is one year from the effective date, however, the obligations regarding confidentiality and non-disclosure shall survive the termination or expiration of this or other related Agreements.

At the end of the term of this agreement, each party shall promptly destroy or return any Confidential Information of the other party, by a method that is mutually agreed upon, however, one copy of each response to NAIC RFP 2077 shall be retained in the NAIC’s files.

Any disclosure, misuse or misappropriation of Confidential Information in violation of this Agreement may cause either party irreparable harm in an amount difficult to ascertain. Therefore, the injured party shall have the right to apply to a court of competent jurisdiction for an order restraining any such further disclosure, misuse or misappropriation and for such other relief as the injured party shall deem appropriate or, if the injured party is the NAIC, to disqualify Vendor from contractual consideration.

**NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS**

\_\_\_\_\_

By: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_