

Executive Summary

Finance & Investment Committee Meeting, September 21, 2021

Board of Governors Meeting, September 22, 2021

Investment Analytics Software – 21-0001

Topic

Citizens requests approval to contract with Clearwater Analytics, LLC, for Investment Analytics Software. Investment Analytics Software aggregates Citizens' investment portfolio data for purposes of compliance, risk/analytics, and reporting. Approval is requested for a three (3) year base term with three (3) one (1) year renewal options, for an amount not to exceed \$3,300,000 for the life of the contract.

Background

Citizens is seeking approval to contract with Clearwater Analytics, LLC (Clearwater) for Investment Analytics Software (IAS) through a cloud-based software-as-a-service (SaaS) solution. The current combined value of Citizens' investment portfolio is approximately \$9.5 billion, consisting of approximately 4,400 individual securities, over 25,000 transactions annually (purchases, sales, interest and principal payments), and over \$200 million in annual investment income. An IAS provides three fundamental capabilities – compliance, risk/analytics, and reporting. These capabilities are especially important as Citizens' 10 portfolio management firms operate independently and must execute investment transactions that comply with Citizens' four distinct investment policies.

Capabilities:

Compliance – Citizens' investment policies govern the types of assets in which Citizens' can invest. Because Citizens must be able to make immediate payment of claims in large dollar quantities, liquidity (meaning the assets can be converted to cash immediately) and preservation of principal (meaning that Citizens can recoup the full value of what it paid for the asset) are the core constructs of these investment policies. These constructs are achieved through numerous requirements in the investment policies, including limiting the concentration in certain asset classes and sectors (for example, no more than 3% of total assets can be invested with a company), prohibiting the purchase of non-investment grade assets (for example, "high yield/junk bonds"), prohibiting the purchase of common stocks, etc. Citizens' assets are managed by multiple portfolio management firms with numerous purchases and sales made in any given day, therefore the ability to quickly and accurately identify any compliance violation is of paramount importance to ensure that liquidity and preservation of principal are upheld.

Risk/Analytics – as noted above, Citizens' must be able to promptly pay its claims. Changes in interest rates and credit ratings, and economic influences can occur without warning, thus the ability to run "what if" scenarios on Citizens' investment portfolio allows Citizens to make better investment decisions and reinforce its cash flow planning.

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By having a 6-month look ahead, for example, on the expected cash flows from the investments Citizens holds, Citizens is in a better position to direct the management of incoming and outgoing cash flows and how best to maximize the investment returns on cash flows. Additionally, it's important for Citizens to have clear insight into the source of its investment returns; for example – an increase in investment income could be driven by an increase in overall interest rates, the performance of a specific asset class, the credit rating upgrade of an investment, etc. By having better insight into this, Citizens can manage its portfolio management firms more effectively and identify specific sources it seeks to further invest in.

Reporting – Citizens is tasked with many reporting obligations for its investment portfolios, most notably reporting portfolio information to the Board of Governors, executive leadership team, financial advisor and auditors. Because Citizens has liquidity needs that are specific to varying uses of cash (for example – the cash flow needs to meet accounts payable requirements are much different than the liquidity needs to pay for a large hurricane), multiple investment policies are used to target and optimize the investment needs of those varying cash uses. The ability to produce instant and accurate reports detailing Citizens' investment positions by investment policy (and/or by investment manager) relies heavily on an IAS. This capability is especially important when strategic decisions are being made that consider changes in portfolio positioning (for example, converting long-term securities to money market funds to increase Citizens' cash position). Reports generated by the IAS can be numerical and/or graphical including information on portfolio returns, credit quality, sector concentration, duration and other important data elements on both a recurring and ad-hoc basis. Reporting capabilities are also necessary to evaluate the performance of portfolio management firms.

Risk Elimination:

There are two significant risks that are eliminated by using an IAS. First, the volume of transactions within Citizens' portfolio would need to be manually reviewed (meaning is the transaction correct), coded (meaning is the transaction a coupon payment or sale of a security) and reconciled (meaning is the security transaction properly reflected in Citizens' general ledger). Manually tracking each transaction would entail a large number of personnel hours. Second, the need to rely on personnel to perform these functions exposes the process to human error, which given the volume of transactions is a credible risk that would adversely affect the reliability of reports that are produced.

Benefits Provided Solely By Clearwater:

The fundamental capabilities of an IAS noted above are not specific to any vendor – these are capabilities that any vendor would offer. However, during the rigorous solicitation process, through the negotiations and finally to the recommendation, Clearwater was selected as the vendor that provided the best value to Citizens. The negotiation team reached that decision based on the following processes and/or services that are **offered only by Clearwater**:

- **Data Reconciliation** – Clearwater automatically validates all transactions on a daily basis by matching these transactions to data provided by custodian banks (custodian banks hold all of Citizens investments) and portfolio managers.

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Cash, investment holdings, transactions (purchases, sales, interest payments, etc.), are all verified by Clearwater for accuracy, which is especially important for Citizens as it significantly reduces, or even eliminates, the need for Citizens' staff to identify any potential discrepancies in the underlying data.

- Integrated Transactional/Accounting Data** – Clearwater's reporting incorporates both transactional data (purchases, sales, interest payments, etc.) and accounting data (month-end balances and activity that are reported on the basis Citizens is required to use). This allows Citizens to streamline its reporting functions without relying on multiple systems or reports and provides for instant reporting of various types of information such as market value, cost basis, unrealized gain/loss, and income across single portfolios, groups of portfolios, portfolio manager, etc. This feature is extremely helpful on two fronts – first, during event situations (for example, an impending hurricane) and during market volatility, this capability serves to quickly produce reports that can be used for strategic planning and decision making – and second, there are no discrepancies in reported values between the IAS and the accounting system (since they use the same source data).
- Insurance Industry Focus** – Clearwater is focused on the insurance industry and portfolios similar to Citizens, providing investment data aggregation, reconciliation and validation, analytics and reporting to over 500 North American insurers, and reports on \$5.2 trillion in global assets. Over half of US insurers with investment portfolio values between \$1 billion and \$10 billion use Clearwater.

Pricing:

Clearwater offers two tiered pricing model based upon the value of Citizens' investment portfolio, .00425% on the first \$10B, and .00400% from \$10B+ to \$15B. In consideration of the historical variability in Citizens' portfolio value together with an unlimited number of users at no additional cost, Clearwater provided the best value. Below is an illustrative exhibit comparing the cost of Clearwater to the cost of FactSet (the incumbent vendor) under several different portfolio value scenarios. Clearwater provides unlimited user licenses, whereas FactSet provides three user licenses, with any additional licenses costing \$21,500 per user, per year.

	Portfolio Value stays constant			Portfolio Value baseline of \$10 billion	
	Years 2022 - 2028			Starting Year: 2022 through 2028	
	\$10 billion	\$12 billion	\$8 billion	Plus increase of \$1 billion/year	Minus decrease of \$1 billion/year
Clearwater	\$ 2,628,041	\$ 3,122,732	\$ 2,102,433	\$ 3,259,931	\$ 1,956,659
FactSet	\$ 3,019,369	\$ 3,019,369	\$ 3,019,369	\$ 3,019,369	\$ 3,019,369
Increase / (decrease) from FactSet	\$ (391,328)	\$ 103,363	\$ (916,936)	\$ 240,562	\$ (1,062,710)

Note 1: the table above includes pricing for three additional user licenses totaling \$64,500 annually for FactSet.

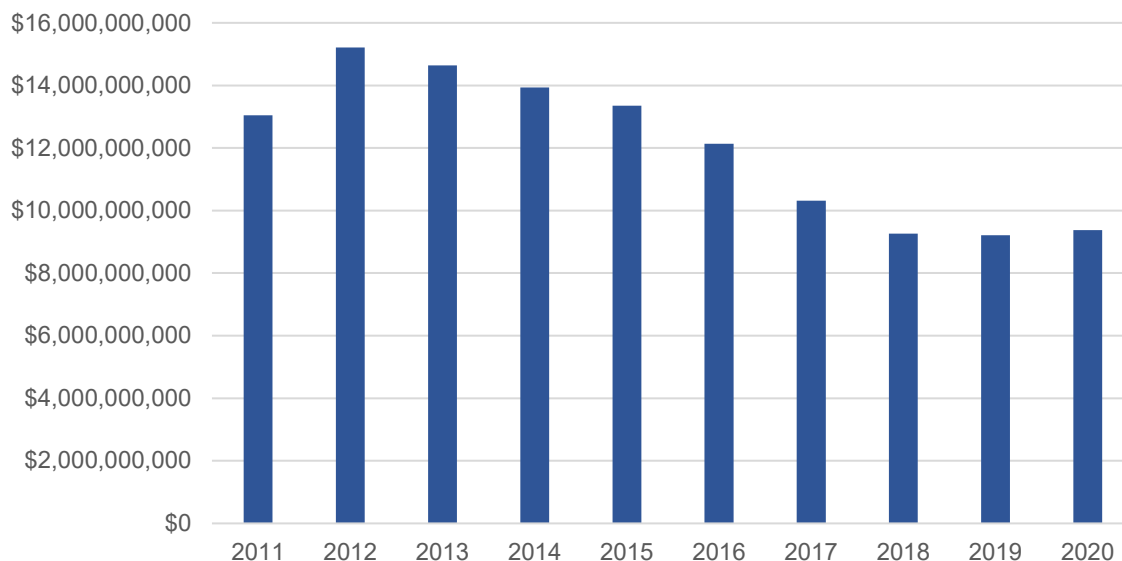
Note 2: as of June 30, 2021, Citizens' portfolio value was approximately \$9.5 billion

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To illustrate the historical variability of Citizens' investment portfolio, the chart below summarizes the ending values of Citizens' investment portfolio from 2011 – 2020



Citizens' current IAS is provided by FactSet Research Systems, Inc. This contract will expire on February 28, 2022.

The requested contract was negotiated on best value to Citizens pursuant to Invitation to Negotiate No. 21-0001 for Investment Analytics Software. The ITN was issued on January 12, 2021. Citizens received responses from three (3) vendors: Blackrock Financial Management, Inc., Clearwater Analytics, LLC, and FactSet Research Systems, Inc. After review and scoring, the Evaluation Team recommended advancing all three vendors to negotiations. Citizens' negotiation team recommended Clearwater Analytics, LLC for award after conducting negotiations with all three (3) vendors.

The contract includes a three (3) year base term with three (3), one (1) year renewal options. Approval is requested for an amount not to exceed \$3,300,000 including renewals.

Recommendation

Staff proposes that the Finance & Investment Committee review, and if approved recommend the Board of Governors:

- a) Authorize Citizens to contract with Clearwater Analytics, LLC for an initial term of three (3) years, and for three (3) one (1) year renewal options, for an amount not to exceed \$3,300,000 for the life of the contract, as set forth in this Action Item; and
- b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.

ACTION ITEM

New Contract

Contract Amendment

Other _____

CONSENT ITEM

Contract Amendment

Existing Contract Extension

Existing Contract Additional Spend

Previous Board Approval _____

Other _____

Action Items: Items requiring detailed explanation to the Board. When a requested action item is a day-to-day operational item or unanimously passed through committee it may be moved forward to the board on the Consent Index.

Move forward as Consent: This Action item is a day-to-day operational item, unanimously passed through committee or qualifies to be moved forward on the Consent Index.

Consent Items: Items not requiring detailed explanation to the Board of Governors. Consent items are contract extensions, amendments or additional spending authorities for items previously approved by the Board.

Item Description	Investment Analytics Software
<p>Purpose/Scope</p>	<p>This Action Item seeks Board approval to contract with Clearwater Analytics, LLC for Investment Analytics Software. The services will be provided through a cloud-based software-as-a-service (SaaS) solution.</p> <p>Investment Analytics Software aggregates Citizens' investment portfolio data for purposes of compliance, risk/analytics, and reporting. The current value of Citizens' investment portfolio is approximately \$9.5 billion, of which 91% is managed by external investment managers in 22 separately managed accounts.</p> <p>In addition to the reporting, compliance and risk/analytics functions of an Investment Analytics system, an Investment Analytics system also eliminates several significant risks – eliminating the need for manual review and reconciliation of investment transactions, and eliminating the potential for human error specific to recording investment transactions and activity.</p> <p>The selected vendor offers several additional benefits:</p> <ul style="list-style-type: none"> • Data reconciliation (all transactions are automatically validated) • Integrated transactional/accounting data (reports can be produced instantly and there are no discrepancies between systems) • Insurance industry focus (more than 50% of US insurers with portfolio values between \$1 billion and \$10 billion use Clearwater) • Pricing (tiered pricing that fluctuates based on Citizens' portfolio value)
<p>Contract ID</p>	<p>Investment Analytics Software Contract number: 21-0001-00 Recommended vendor: Clearwater Analytics, LLC</p>

<p>Budgeted Item</p>	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Funding included in 2021 Operating Budget and annually for each respective contract year.</p>
<p>Procurement Method</p>	<p>The contract was procured pursuant to Invitation to Negotiate (ITN):. 21-0001. The ITN was issued on January 12, 2021. On April 7, 2021, three (3) vendors were advanced to the negotiation phase. Citizens' negotiation team recommended Clearwater Analytics, LLC for award on May 28, 2021, after conducting negotiations with all three vendors.</p>
<p>Contract Amount</p>	<p>Not to exceed \$3,300,000 for the life of the contract (including the renewal terms)</p> <p>The vendor's fee for the services is an annualized asset-based fee that is based on the market value of Citizens' assets.</p>
<p>Contract Terms</p>	<p>Three (3) year base term with three (3) one (1) year renewal options.</p>
<p>Committee Recommendation</p>	<p>Staff proposes that the Finance & Investments Committee review, and if approved recommend the Board of Governors:</p> <ul style="list-style-type: none"> a) Authorize Citizens to contract with Clearwater Analytics, LLC for an initial term of three (3) years, and for three (3) one (1) year renewal options, for an amount not to exceed \$3,300,000 for the life of the contract, as set forth in this Action Item; and b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.
<p>Board Recommendation from Committee</p>	<p>If approved at its September 21,2021 meeting, the Finance & Investment Committee recommends that the Board of Governors:</p> <ul style="list-style-type: none"> a) Authorize Citizens to contract with Clearwater Analytics, LLC for an initial term of three (3) years, and for three (3) one (1) year renewal options, for an amount not to exceed \$3,300,000 for the life of the contract, as set forth in this Action Item; and b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.
<p>Contacts</p>	<p>Jennifer Montero, Chief Financial Officer</p>