

# Executive Summary

Finance & Investment Committee Meeting, March 28, 2023  
Board of Governors Meeting, March 29, 2023

## Investment Accounting and Reporting Services

### Topic

Citizens' staff is requesting approval of the contract for Investment Accounting and Reporting Services, which aggregates, reconciles and reports on Citizens' invested assets and investment asset activity, in accordance with accounting and financial reporting standards. These Services are currently provided by The Bank of New York Mellon, whose contract is expiring on July 31, 2023. As a result, The Bank of New York Mellon will continue to provide these Services in July 2023.

### Pricing Summary

Each of the two respondents, The Bank of New York Mellon and Clearwater Analytics, LLC submitted different pricing arrangements. The proposed pricing model offered by The Bank of New York Mellon uses a percentage of assets under management (AuM) whereby the first 5 years incur a fee of 0.33 basis points of AuM and the next 4 years (two additional 2-year terms) incur a fee of 0.35 basis points of AuM, with a total contract spend not to exceed \$6 million. Clearwater Analytics, LLC proposed a fixed fee with annual price escalations of 5% each year beginning in year 3.

Based on Citizens' current AuM of \$9 billion and when considered together with reasonable forward-looking estimates of Citizens' AuM, the pricing offered by The Bank of New York Mellon results total estimated spend that is approximately 15% less than the pricing offered by Clearwater Analytics, LLC.

### History

Citizens financial statements are prepared in conformity with generally accepted accounting principles (GAAP) as well as in conformity with the National Association of Insurance Commissioners (NAIC) Accounting Practices and Procedures Manual, subject to deviations prescribed or permitted by the Florida Office of Insurance Regulation (OIR). These bases of accounting have differing measurement and reporting requirements for invested assets.

Currently, Citizens has three (3) business accounts: PLA (Personal Lines Account), CLA (Commercial Lines Account), and the Coastal Account. By statute, each of these accounts must be tracked, valued, and accounted for separately, including preparation of financial statements for each of the three accounts.

Citizens uses a book value roll-forward approach monthly to verify, reconcile, and record investment activity to the general ledger via the use of generated reports through this service arrangement. Trade activity and other investment related transactions are captured through

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this service arrangement, and once all transactions and receipts are verified and confirmed with the Custodian Bank, Citizens uses specific system reports, and monthly reporting services to record: i) realized gains/losses, ii) premium amortization, iii) discount accretion, iv) acquisitions, v) dispositions, vi) income accruals/receipts, and vii) schedule line maturity classifications for all accounts.

From a portfolio perspective, Citizens currently has an approximate \$9 billion fixed-income portfolio comprised of tax-exempt and taxable fixed-income bonds of varying maturities. Approximately ninety-five percent (95%) of the portfolio is managed by ten (10) external investment managers, who have been given the authority to execute investment transactions on behalf of Citizens. Citizens accounts for one (1) Coastal Account Senior Secured Serial Bond issuance with a principal balance of \$275 million. All bonds are secured by and payable from pledged revenues.

Investments in debt securities are valued at cost and amortized under the valuation standards of the NAIC, where investments in debt securities are valued at fair value on a GAAP basis. The fixed income securities in which Citizens or its investment managers will invest in include investment grade corporate debt securities, bank instruments, U.S. Treasury securities (Government securities), U.S. Government Agency securities (Agency securities), non-agency mortgage-backed securities, certain asset-backed securities, collateralized loan obligations, municipal securities, and shares of money market mutual funds. Investment managers are permitted to buy 144A securities.

From an investment banking perspective, Citizens has relationships with various banking institutions which maintain thirty-five (35) open/active invested asset accounts.

As a reference for the Services that will be provided by this Vendor, Citizens' past twenty (20) years of Annual Statements and Quarterly Reports can be found at <https://www.citizensfla.com/financials>. The awarded Vendor must provide all the reporting required to produce these Quarterly Reports and Annual Statements for the term of the Contract.

## Procurement Details

On November 8, 2022, Citizens issued Invitation to Negotiate No. 22-0020 for Investment Accounting and Reporting Services. Two (2) vendors submitted replies, Clearwater Analytics, LLC and The Bank of New York Mellon. The Evaluation Team identified both Clearwater Analytics, LLC and The Bank of New York Mellon to proceed to the Negotiation phase. Following negotiation sessions with both vendors, at the March 13, 2023 public meeting, The Bank of New York Mellon was determined by the Negotiation Team to be the best value based on the following criteria:

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- the quality, design, approach, workmanship, prior relevant experience, and demonstrated ability of the Vendor to effectively provide the Services,
- the price and terms of payment for the Services,
- the reasonableness of the contractual terms, including service level agreements,
- Vendor's ability to provide quality and timely Services to Citizens during the term of the Contract; and,
- Vendor's ability to track performance and quality assurance metrics.

## Recommendation

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

- a) Authorize the Investment Accounting and Reporting Services contract with The Bank of New York Mellon for an initial term of five (5) years, and two (2) two-year renewal terms, for an amount not to exceed \$6,000,000.00, as set forth in this Action Item; and
- b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.

## Investment Accounting and Reporting Services

**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.

<b>Purpose/Scope</b>	This Action Item seeks Board approval for the contract for Investment Accounting and Reporting Services, which will provide investment accounting and reporting services needed to track, value, reconcile and account for over thirty-five (35) open and active invested asset accounts. These Services are currently provided by The Bank of New York Mellon, whose contract is expiring on July 31, 2023. As a result, The Bank of New York Mellon will continue to provide Services in August 2023.
<b>Contract ID</b>	<b>Investment Accounting and Reporting Services</b> <b>Contract number:</b> 23-22-0020 <b>Vendor:</b> The Bank of New York Mellon
<b>Budgeted Item</b>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No  Funding for 2023 is included in the 2023 budget, approved at the December 7, 2022, board meeting. Funding for subsequent contract years will be included in the Annual Operating Budget for each respective contract year.
<b>Procurement Method</b>	On November 8, 2022, Citizens issued Invitation to Negotiate No. 22-0020 for Investment Accounting and Reporting Services. Two (2) vendors submitted replies, Clearwater Analytics, LLC, and The Bank of New York Mellon. The Evaluation Team identified both Clearwater Analytics, LLC, and the Bank of New York Mellon to proceed to the Negotiation phase. On March 13, 2023, the Negotiation Team recommended an award to The Bank of New York Mellon as representing the best value for Citizens.

## Investment Accounting and Reporting Services

<b>Contract Amount</b>	A not to exceed amount of \$6,000,000.00 for the life of the contract including the initial term of five (5) years, with two (2) optional two (2) year renewal terms (a total of nine (9) years).
<b>Contract Terms</b>	Initial Term: Five (5) years August 1, 2023 – July 31, 2028 Renewal Term: Two (2), two (2) year renewal terms
<b>Committee Recommendation</b>	Staff proposes that the Finance & Investment Committee review, and if approved recommend the Board of Governors:  a) Approve the contract with The Bank of New York Mellon for Investment and Accounting and Reporting Services for a five (5) year term initial term with two (2) two (2) year renewal terms, for a total contract amount not to exceed \$6,000,000.00, as set forth in this Action Item; and,  b) authorize staff to take any appropriate or necessary action consistent with this Action Item.
<b>Board Recommendation from Committee</b>	If approved at its March 28, 2023 meeting, the Finance & investment Committee recommends that the Board of Governors:  a) Approve the contract with The Bank of New York Mellon for Investment and Accounting and Reporting Services for a five (5) year term initial term with two (2) two (2) year renewal terms, for a total contract amount not to exceed \$6,000,000.00, as set forth in this Action Item; and,  b) authorize staff to take any appropriate or necessary action consistent with this Action Item.
<b>Contacts</b>	Jennifer Montero, Chief Financial Officer