**Kentucky Employers’ Mutual Insurance**

**Request for Proposals (RFP) No. 2024-105**

**Purpose:** **Asset Custody Services and Letters of Credit**

The procurement by competitive negotiation is desired by Kentucky Employers’ Mutual Insurance (hereinafter “KEMI”) for Asset Custody Services and Letters of Credit.

Responses must be submitted electronically, in a single PDF document limited to 100MB, via KEMI’s online procurement submission portal at: [www.kemi.com/rfp](http://www.kemi.com/rfp)

The online procurement submission portal utilizes a two-step process to upload responses. Vendors must complete the access request form by providing contact information and a valid email address.  An access link will be sent to the email address provided.  Vendors must then follow the access link to the proposal submission form.

Proposals must be submitted on or before: **12:00 PM Eastern Time on April 17, 2024**

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1. **RFP SPECIFICATIONS**
2. Purpose and Scope of Services

KEMI is accepting proposals from qualified companies to provide asset custody services and letters of credit. As of December 31, 2023, KEMI held custodial assets with a combined cost basis of $1,059 million and a combined market value of $991million. The combined portfolio was comprised of approximately 90% fixed income securities, 7% equity securities, and 3% cash equivalents. KEMI currently holds no derivative investments. All securities are denominated in US currency.

KEMI currently utilizes Conning for portfolio management services and Clearwater Analytics for investment accounting, reporting, and compliance monitoring. KEMI requires at least five separate custodial accounts, one of which is stipulated by a trust document. Reporting must be available on both a separate and combined basis.

KEMI does not currently participate in a securities lending program but there is a possibility that a program could be initiated in the future. The awarded custodian would be responsible for the monitoring and movement of securities in and out of KEMI’s securities lending account. The awarded custodian would also be responsible for assuring that the securities lending collateral is marked to market and that the required margin balance is maintained.

KEMI currently has three evergreen letters of credit totaling approximately $14.35 million that collateralize ongoing reinsurance activities. These letters of credit are issued by our current custodial bank and are collateralized by fixed income securities held within the above-mentioned custodial accounts. Future increases in our portfolio will potentially require an increase in the commitment of Letters of Credit up to $20 million.

Attached is a copy of KEMI’s 2023 annual statutory statement that will assist you in preparing your response. KEMI’s audited financial statements can be found on our website at www.kemi.com.

1. Scoring

A committee will evaluate all responses to ascertain which Offeror(s) best meets KEMI’s business needs and requirements based on the selection criteria below:

|  |  |
| --- | --- |
|  | **Maximum Points Possible** |
| **Organization, Personnel, and Customer Service** | **5** |
| **Safety and Soundness** | **20** |
| **Computer Systems and Disaster Recovery** | **15** |
| **Specific Qualifications** | **20** |
| **Costs** | **35** |
| **Business Continuity Form** | **5** |
| **MAXIMUM POINTS POSSIBLE** | **100** |
| **Interviews/Discussions, if selected** | **100** |
| **MAXIMUM POINTS POSSIBLE**  **With Interviews/Discussions** | **200** |

1. Schedule of Events

The following schedule of events represents KEMI’s best estimate of the schedule that shall be followed. KEMI, in its sole discretion, may alter and/or amend this schedule at any time, including not conducting virtual interviews/discussions. Any adjustments to the schedule of events will be emailed to the prospective offeror’s contact on record with Sarah Kosin.



* RFP Publication Date – Monday, March 18, 2024
* Deadline for Inquiries – Monday, March 25, 2024
* KEMI Response to Inquiries – Thursday, March 28, 2024
* Deadline for Submission of Proposals – Wednesday, April 17, 2024
* Virtual Interview/Discussions (Optional) – May 2-3, 2024
* Estimated Contract Award – July 1, 2024

1. **PROPOSAL REQUIREMENTS**
2. **Organization, Personnel, and Customer Service**
   1. **Organization**
      1. Provide name, location of corporate headquarters, telephone number, facsimile number, website address and relevant branch locations.
      2. Describe your ownership structure, along with a brief history of founding and development. Include the number of years operating under current name and history of any change due to merger or acquisition transactions directly or indirectly involving your organization.
      3. Provide the name, title, business address and telephone number of the individual who will be KEMI’s principal contact for all aspects of the contract.
      4. Describe your capabilities to interact seamlessly with our other service providers (Conning and Clearwater Analytics).
      5. Describe your quality control program and how it ensures KEMI will receive the highest quality service from your organization.
      6. Provide examples of insurance enterprises served by the personnel who will be assigned to KEMI as its client relations team. Indicate the types of services provided to each client.
   2. **Personnel**
      1. Identify the person(s) who would be responsible and accountable for the custody services and letters of credit.
      2. Provide brief resumes for the key people who would be involved in managing or providing ongoing services for this assignment. This information should include at a minimum the number of years and type of overall custodial experience and the number of years and assignments with Offeror. Also include educational background, professional designations and treasury association involvement.
      3. Do you employ subcontractors to perform any portion of the services relevant to this RFP? If so, please describe the functions performed. The subcontractor should also include a minimum of three client references including a brief overview of services provided, contract dates, client contact name, title, address, phone number and email address.
   3. **Customer Service**
      1. Describe your customer service philosophy. Explain the structure and nature of the client support function. Also describe the responsibilities of customer service personnel, including the chain of command and escalation procedures for problem resolution.
      2. Will a specific customer service representative be assigned to KEMI’s account? Where will this person be located? How do you ensure continuity of service when the primary customer service representative is unavailable?
      3. Discuss all methods (i.e., phone, fax, email, portals) KEMI can use to initiate and track inquiries.
      4. Describe your procedures for processing inquiries that require research and/or adjustments.
      5. Are there established turn-around times for research and adjustment items? If yes, what are they and what is your record for meeting established response times?
      6. Describe your customer satisfaction program. Discuss how you measure customer satisfaction.
3. **Safety and Soundness**
   1. Provide the following information for the past five (5) fiscal years, and current year information where available:
      1. Ratings from the following rating agencies: Standard & Poor's, Moody's and Fitch. Include ratings for Bank Financial Strength, and Issuer Rating.
   2. Describe material litigation, regulatory or legal proceedings in which you or any of your principals are, or have been, involved over the last five (5) years. Discuss the status and/or outcome of these events.
   3. Provide details on any mergers or acquisitions that you are currently committed to and the expected impact on services referenced by this RFP.
4. **Computer Systems and Disaster Recovery**
   1. Provide the physical location(s) of the computer system(s) used to process client data.
   2. Describe the hardware and software systems used in custody operations. Do safekeeping systems use dedicated hardware? If not, compare the priority given to safekeeping systems versus other systems sharing the same hardware.
   3. Identify and briefly describe your safekeeping system including the following:
      1. Reliability
      2. Type of system (i.e., OCS, DB2)
      3. Real-time or batch
      4. Direct access to live database
      5. Transaction processing, inquiry/reporting only, or multiple functions
   4. Is programming support for systems provided by a dedicated programming staff? If so, are they employees of the bank or outsourced employees?
   5. How are client system requests prioritized? Discuss additional costs associated with customization.
   6. Indicate the hours available for client access to online systems and the method of access.

* 1. Indicate the number of users that can simultaneously access the online system. Does performance suffer during periods of heavy use?
  2. Describe the typical communication connections required between your system and a client’s system, including computer equipment, number of connections, protocols and software required by the client.
  3. Describe your procedure for user reporting of system errors and error correction.
  4. How long is history information maintained and available for immediate online access?
  5. Describe the standard reports currently available on your system. Indicate if the report is available on a daily, weekly, monthly, quarterly and/or annual basis. Provide samples of relevant standard reports.
  6. Does your system have a report writing feature accessible to clients? If so, please describe this feature.
  7. Discuss your policy for safeguarding client data from unauthorized access.

1. **Specific Qualifications for Asset Custody Services**
   1. **Safekeeping**
      1. Describe your depository memberships (i.e., DTC, FRB, PTC, Clearstream, Euroclear) and the services you use at these depositories.
      2. Describe your system for the registration and custody of assets.

* + 1. Describe the process of safekeeping assets electronically.
    2. Are there any restrictions on the types of securities that may be held for safekeeping? If so, please describe.
    3. List all insurance coverages relevant to the custody department and all sub-custodians. Indicate the type and amount.
    4. Are you willing to accept responsibility for losses of securities held in depository and clearing agencies?
    5. Are you willing to accept the burden of proof that you exercised due care in the event of a loss of property? Describe the time frame and process for resolution and compensation or asset replacement.
  1. **Trade Instruction and Settlement**
     1. Briefly describe how you handle securities processing on behalf of your clients for each of the items listed below. Where automated processing is available, indicate the nature of the automation and level of availability (i.e., overnight, batch, real-time).
        1. Receipt of trade instructions including same day (cash) trades,
        2. Affirmation processing (DTC); indicate what provisions have been made for interactive ID,
        3. Securities movement and control (SMAC) systems update,
        4. Notification of settled trades, failed trades, available balances, etc.,
        5. Securities position reporting and reconciliation,
        6. Reporting of income on securities held, and
        7. Trade discrepancies (i.e., bad money, DKs).
     2. Does your system have built-in edit features to ensure accuracy in trade input (i.e., security description/identifier cross check features, calculations of remaining par on factor-based securities, computation of accrued interest)?
     3. Do you currently use electronic transmissions to communicate trades, holdings and other information to and from clients? Describe the level of automation, standby procedures and customization options.
     4. How do you handle corrections/reversals (i.e., as adjustments or offsetting purchases and sales)?
     5. What are your requirements for handling same day turnaround transactions for actively traded accounts?
  2. **Asset Backed Securities**
     1. Briefly describe your capability to process trades and safekeep asset-backed securities.
     2. Briefly describe the process by which P&I discrepancies are investigated and resolved, and how client accounts are charged or credited. Indicate the performance benchmarks for these aspects.
     3. Are factor and principal payment histories maintained? If so, are they available to clients? If not, are current factor and payment data files made available to clients?
  3. **Income Collection and Maturities**
     1. What are your sources of, and how do you account for, pay down information on all factor-based securities (i.e., MBS, ABS, SBA)? Do you maintain a record of the original face amount purchased?
     2. Do you take responsibility for the collection of due bills?
     3. What is your policy for posting income (i.e., contractual versus actual)?
  4. **Corporate Actions**
     1. How and when do you record and report corporate action information?
     2. Provide a list of the various sources you use for corporate action announcements.
     3. What are your control procedures to ensure a timely response on voluntary corporate actions?
     4. Will you reimburse KEMI for losses incurred as a result of nonparticipation in a corporate action due to your processing errors or errors by your depositories?
  5. **Audit and Control**
     1. What cycle applies for internal audits of the following:
        1. Safekeeping, operations (trade processing)
        2. Income collection
        3. Vault (physical assets)
        4. Asset reconciliation
        5. Security operations
        6. Systems data processing controls (i.e., system access, modification)
     2. Identify your external auditor and indicate what cycle applies to auditor examinations of:
        1. Safekeeping, custody control
        2. Vault (physical assets)
        3. Asset reconciliation
        4. Security operations
        5. Systems data processing controls (i.e., system access, modification)
        6. General systems control review
     3. Does your external auditor provide third-party service audit reports attesting to:
        1. Adequacy of controls over securities operations?
        2. Adequacy of controls over physical assets?
        3. Adequacy of controls over system access and modifications?
        4. Verification/reconciliation of assets held?
        5. Adequacy of disaster recovery plans (including testing)?
        6. Information systems?
        7. Operations contingency plans?
     4. Provide your most recent SOC report, if available.
  6. **Pricing of Securities**
     1. How many accounts do you price? How frequently are prices updated?
     2. Which vendors are used for pricing each type of security?
     3. What procedures and control points do you have in place to ensure that securities are priced accurately?
     4. How are pricing discrepancies identified and communicated?
  7. How do you typically work with third-party service providers such as Conning and Clearwater Analytics?
  8. **Implementation Plan**
     1. Provide a copy of all service documents that will be required to initiate the custody/safekeeping services included in this RFP. Include the standard contract KEMI will be required to sign.
     2. Provide a detailed description of the recommended implementation process, including testing and an overview of the implementation team. Provide a detailed proposed implementation timeline in terms of days/weeks.
     3. Identify the tasks that would have to be completed during a conversion distinguishing between your responsibilities and KEMI’s responsibilities. Fully explain your expectations regarding the allocation of KEMI’s Finance and/or IT resources to complete each task and the length of time to complete. Identify and describe any third-party implementation personnel that would be used (if any).
     4. Describe training and reference materials available and/or any onsite training provided. Describe technical support you offer both during and after implementation.
     5. Describe how unsettled transactions are handled in the conversion process.

1. **Specific Qualifications to Provide Evergreen Letters of Credit**
   1. Describe timing and requirements of KEMI to issue letters of credit and describe necessary collateral margins based on type of collateral.
2. **Costs**
   1. Provide a detailed pricing schedule for the custody services included in this RFP, including but not limited to holdings, trades, income, corporate actions, out-of-pocket expenses, software, training, connectivity, one-time or setup charges, research fees, customization fees, and all other fees that could be charge.
   2. Provide a detailed pricing schedule for letters of credit fees and the basis for any changes in fees. Your proposal should include costs using portfolio assets as collateral for a commitment of up to $20 million. If you have an alternative way to provide this service, please do so in a separate section and describe the process and the fees associated with that process.
   3. If your prices are tiered based on volume, provide all price tiers.
   4. How soon after the close of the billing period is the account analysis available to the customer? What methods of physical and electronic delivery are available? If available online, how many months are these billing statements maintained on this service?
3. **References**
   1. Provide at least three executive-level client references for which you have provided similar services as outlined in this RFP. You must include the client’s name and address, as well as the name and phone number of a contact person. You may also include other references such as other businesses or other resources with whom you are associated and can provide a relevant, specific assessment of your qualifications to provide the services requested in this RFP.
4. **Business Continuity Form**
   1. Complete the Business Continuity Form which is attached to this RFP, and return it as a separate attachment with your response. You must utilize the Business Continuity form for your answers.

**III. INSTRUCTIONS**

**READ ALL INSTRUCTIONS CAREFULLY.**

**FAILURE TO DO SO WILL BE AT THE OFFEROR’S RISK.**

1. Proposals must set forth full, accurate, and complete information as required by this RFP. Failure to follow these requirements may be cause for rejection of the proposal.
2. KEMI is not liable for any expenses incurred in the preparation and presentation of the proposal.
3. The Offeror Form located in the addendum must be signed by the person submitting the proposal and must include the signee's printed or typed name, business address, email address, company website, telephone number, and date. This form must be submitted with your proposal.
4. The Sworn Statement Regarding Campaign Finance Laws Form located in the addendum must be signed, notarized, and submitted with your proposal.
5. The Mandatory Requirements Statement located in the addendum must be signed, attesting to compliance with KEMI’s mandatory requirements for this RFP, and returned with your proposal.
6. The Proposal Submission Checklist located in the addendum is included to ensure accurate and complete submissions.
7. Proposals must be submitted electronically via KEMI’s online submission portal as specified on the first page of this RFP. Unless stated otherwise in the RFP, it is **strongly preferred** that the entire proposal is submitted in a single PDF document. If separate attachments are also submitted, they must be clearly labeled and timely submitted. Please note that only a maximum of ten (10) attachments can be submitted through the online submission portal. No other method of correspondence will be accepted.
8. **The Proposal Deadline Date and Time are the date and time indicated on the first page of this RFP. The date and time that KEMI actually receives the proposal will determine whether the applicant has met the deadline for response.**
9. All inquiries concerning the form and method or specific services/products as well as requests for copies of the RFP must be made in writing to:

Sarah Kosin

[rfp@kemi.com](mailto:rfp@kemi.com)

Responses to inquiries will be shared with all potential Offerors having received a copy of this RFP from KEMI. Therefore, distribution of this RFP must be handled directly by KEMI. Any unauthorized contact with any KEMI staff other than as specified above may disqualify the Offeror from further consideration.

**IV. GENERAL INFORMATION**

A. Background

KEMI was created in 1994 by the Kentucky General Assembly to provide workers’ compensation insurance to Kentucky employers. KEMI is Kentucky’s largest writer of workers’ compensation insurance with its headquarters located in Lexington, Kentucky. For additional information about KEMI, please visit [www.kemi.com.](http://www.kemi.com.)

B. Discussions with Offeror

Discussions may be conducted with all responsible Offerors who submit proposals and are determined to be reasonably qualified and susceptible of being selected for award. Discussions may be for the purpose of clarification to assure full understanding of, and conformance to, the proposal requirements; however, Offerors will not be permitted to change their original proposal. Offeror should clearly understand that any verbal representations made or assumed to be made during any oral discussion held between Offeror and KEMI are not binding.

KEMI may require Offerors among the top scoring proposals to participate in a virtual interview. See aforementioned Schedule of Events. The principal contact for KEMI will be required to participate in the interview.

C. Proposal Modifications

Any changes, amendments or modifications to a proposal after it has been submitted must be made prior to the deadline for receipt of proposals, must be in writing, and must be submitted in the same manner as the original proposal.

Proposals or modifications received by KEMI after the exact hour and date specified shall not be considered.

F. Confidentiality

Matters relating to this RFP and any resulting contracts shall not be discussed with anyone other than KEMI staff without the prior written consent of KEMI. No opinions, reports, summaries, letters, or other documents prepared with respect to the RFP shall be released without approval of KEMI, except as required by state or federal law.

Except as required by law, information furnished by any Offeror in response to this RFP will not be disclosed by KEMI without the prior written consent of the Offeror.

G. Reservation of Rights

KEMI reserves the right to:

1. Reject any or all proposals and waive any requirement, informality, or condition of proposals.
2. Cancel the RFP and not award the RFP.
3. Prohibit sub-contractors of the Offeror from performing any of the Services outlined in this RFP without the prior written consent of KEMI.
4. Categorize Offeror as an independent contractor, denying any employee/employer relationship between KEMI and Offeror.
5. Approve the time and format of payment for the Offeror(s). KEMI will audit fees for reasonableness and accuracy.
6. Add items or services within the scope of the resultant contract if mutually agreeable by both the Offeror and KEMI.
7. Amend this RFP. Any amendment or information provided to a prospective Offeror will be provided to all prospective Offerors. If necessary, an RFP based on revised specifications will be issued as promptly as possible.
8. Perform services in-house, or to contract with another company to perform like services.
9. Require a contract with the winning Offeror(s). Contract negotiations will commence at the conclusion of the RFP process.
10. Registration with the Kentucky Secretary of State

By responding to this RFP, the Offeror agrees and acknowledges that:

1. If the Offeror is a foreign entity as defined under Kentucky Revised Statute (KRS) 14A.1-070(10), and it is awarded a contract, it will ensure that it is properly registered with the Kentucky Secretary of State in accordance with KRS 14A.9-010 during the life of any contract awarded, or otherwise document the legal exemption which applies.
2. If the Offeror is a Kentucky entity as defined under KRS 14A.1-070(7), and it is awarded a contract, it will ensure that it is properly registered with the Kentucky Secretary of State in accordance with KRS Chapter 14A, or otherwise document the legal exemption which applies.

The aforementioned information shall be maintained during the life of any contract awarded and provided to KEMI upon request.

1. Protest

Any offeror who is aggrieved in connection with the solicitation or award of a contract may file a written protest to KEMI’s Internal Auditor within fourteen (14) calendar days after such aggrieved offeror knows or should have known of the facts giving rise to the protest.

Patrick Simpson

[psimpson@kemi.com](mailto:psimpson@kemi.com)

**OFFEROR INFORMATION:**

***IMPORTANT*: SUBMISSION MUST CONTAIN ORIGINAL SIGNATURE**

Signed by:

Date:

Type or Print Name:

Company:

Address:

City: State: Zip:

Phone No. (Area Code)

Fax No. (Area Code)

Email Address:

Company Website:

Federal ID or SSN #

Type of ownership: Individual Sole Proprietorship

Corporation Partnership

In addition to the principal contact listed above, please include below any additional contacts you would like to receive communication regarding the RFP. KEMI will only send communication regarding the RFP to the principal contact and the contact(s) listed below. The information includes, but is not limited to, KEMI’s responses to inquiries, status updates about the RFP, any modifications to the RFP, requests for interview scheduling, etc.

Contact Name(s) for RFP Communication:

Contact Email(s) for RFP Communication:

**Sworn Statement Regarding Campaign Finance Laws:**

**Pursuant to KRS 45A.110 and KRS 45A.115**

*This sworn statement regarding campaign finance laws must be signed and notarized and returned with your proposal.*

The undersigned hereby swears or affirms, under penalty prescribed by law for perjury, that neither he/she, individually, nor, to the best of his/her knowledge and belief, the corporation, partnership, or other business entity which he/she represents in connection with this procurement, has knowingly violated any provisions of the campaign finance laws of the Commonwealth of Kentucky, and that the award of a contract to him/her, individually, or to the corporation, partnership or other business entity which he/she represents, will not violate any campaign finance laws of the Commonwealth.

OFFEROR

(Signature)

(Title)

(Name of Company or Corporation)

State of )

) SS

County of )

The foregoing statement was acknowledged and sworn on before me this \_\_\_\_\_\_\_\_\_ day

of , \_\_\_\_\_\_\_.

Notary Public

My Commission expires: .

**MANDATORY REQUIREMENTS:**

*IMPORTANT*: SUBMISSION MUST CONTAIN ORIGINAL SIGNATURE.

OFFERORS FOR ASSET CUSTODY SERVICES MUST MAKE AN AFFIRMATIVE STATEMENT THAT THE PROPOSED ASSET CUSTODY SERVICES MEET THE FOLLOWING REQUIREMENTS. THESE REQUIREMENTS ARE MANDATORY, AND NO SUBSTITUTIONS WILL BE PERMITTED.

* Offeror must be included on the approved “NAIC List of Qualified U.S. Financial Institutions.”
* Overnight investment alternative for funds KEMI cannot reasonably invest overnight with independent sources resulting from failed trades or other unforeseen circumstances.
* The ability to receive, account for and/or maintain all securities purchased by KEMI and its outside managers.
* Ability to track and mark to market all securities in KEMI’s portfolios daily. In determining market value, the Offeror must use a mutually agreeable, third party pricing system. KEMI must be notified of the pricing system and the methodology used to establish the price for each type of security held in the portfolios. The Offeror must also be accountable for errors made in the daily pricing if that error results in a loss to KEMI.
* Ability to deliver daily reports via a secure internet site which must contain, at a minimum, the following information:
  + CUSIP number, if applicable
  + Par amount
  + Type of security
  + Trade date
  + Settlement date
  + Maturity date
  + Coupon
  + MBS/ABS factor, if applicable
  + Market value in both price and actual dollars
* Ability to provide secure electronic access to daily investment activity and securities held by the custodian for the benefit of KEMI. This access should also provide real time, or nearly real time, access to settlement information.
* Personnel assigned to KEMI’s account who are readily available for inquiries and problem resolution. From time to time, the Offeror may also be asked to meet with KEMI’s management regarding special projects or other matters.

OFFERORS FOR LETTERS OF CREDIT MUST MAKE AN AFFIRMATIVE STATEMENT THAT THE PROPOSED SERVICES MEET THE FOLLOWING REQUIREMENTS. THESE REQUIREMENTS ARE MANDATORY, AND NO SUBSTITUTIONS WILL BE PERMITTED.

* Offeror must be included on the approved “NAIC List of Qualified U.S. Financial Institutions.”
* The letters of credit must be issued as evergreen.

The undersigned hereby affirms the above statements are accurate, understanding that any violation of the validity of the above statements will result in the dismissal of Proposal.

OFFEROR

(Signature)

(Title)

(Name of Company or Corporation)

**PROPOSAL SUBMISSION CHECKLIST**

The vendor MUST include the following with the proposal submission.

If the items below are not submitted with the proposal submission,

KEMI will reject the proposal and the Offeror will be disqualified.

** SIGNED OFFEROR INFORMATION FORM**

** SIGNED AND NOTARIZED SWORN STATEMENT REGARDING CAMPAIGN FINANCE LAWS**

** SIGNED MANDATORY REQUIREMENTS STATEMENT**

** COMPLETED BUSINESS CONTINUITY FORM**

** ORIGINAL COPY OF THE PROPOSAL**

**(prepared in accordance with the Specifications and Requirements described in this RFP)**