



Confidential Communication

Dear Client,

I want to personally update you on an important development around the availability of RMS science, models, and analytics through our relationships amongst the broker community.

By way of background, RMS is the leading catastrophe model vendor within the insurance industry. We employ more than 1,300 people across the world, including hundreds of catastrophe research scientists, many with PhDs, top software engineers, and model analyst service professionals, who help our clients to scale their analytics capabilities to meet the demands of an ever-changing market. We're applying the latest science and technologies to innovate and build the most robust risk platform for the market. To this end, we've been investing about 50 percent of our annual revenues in R&D to help our clients better understand the impact of catastrophe risk. Publicly available information indicates that we are investing 10 times the amount of any other company in our space to deliver the best models and science to the market. These investments are even more important for developing a better understanding of how climate change, the COVID-19 pandemic, cyber, and other emerging risks will impact the industry.

We also aim to innovate in models and analytics on the platform to vastly improve performance and lower the cost of leveraging RMS models and products. Every RMS customer I've met in the last two years has emphasized the value they place in the quality of our models, thus the importance of our continued investments to deliver high-quality models, science, and analytics. To understand this better, we conducted an analysis that shows clients who invested more in RMS products over the past five years had notably better financial outcomes, while clients who reduced their investment in RMS over the past five years had notably worse financial outcomes. For all these reasons, our commitment to continued investments with the goal of enabling the best risk insights remains and carries into our relationships and agreements with the broker community.

For nearly 30 years, RMS has licensed its models, data, and products to brokers to enable them to leverage RMS IP in structuring and placing (re)insurance on behalf of their clients. Over the last several years, it has become increasingly apparent that brokers would like to extend this use to provide a range of services to their clients beyond reinsurance placements to support, amongst other things, the increasing regulatory and rating agency demands that the insurance industry is facing.

In the past, there were some restrictions within various RMS broker agreements on which related services and model IP could be provided to the broker's clients, even if those clients licensed RMS models. This restricted the depth of work that a broker and an RMS client could do together.

RMS also learned that we had an IP leakage issue in the market, and that RMS IP was in some cases being inadvertently used by non-customer (re)insurers in ways not intended. As a result, some (re)insurers who were not licensed to use RMS models and data, and were paying no fees to RMS were able to leverage our models and data to run parts of their business.

These two dynamics above created an unfair situation in which RMS customers were restricted in what they could do with brokers and non-customers were, in some cases, leveraging our IP in ways well beyond reinsurance placements, to the detriment of paying RMS clients.

To address this concern for our customers, to enable the activities that brokers and their clients want to undertake leveraging RMS models and products, and to bring more flexibility to the market, RMS has created new standardized agreements which enable brokers to provide a much wider scope of services to their clients using the RMS IP. This standardization creates a level playing field across the market so that all of our broker clients have the same opportunities to provide expanded services to their clients while bringing their own differentiated value to the marketplace.

I'm aware that there has been much confusion in the market around these new agreements and what is possible. There have been unfortunate misunderstandings and misinterpretations, including that RMS models and results could not be used to support rate filings, regulatory compliance, capital modeling or other advisory activity. This is not the case and in fact, the new agreements enhance the services and uses possible with RMS models, data, and products for broker clients.

To clarify the new arrangements, I want to summarize the highest-level details.

1. There is no change to the way that brokers and the (re)insurance market use our IP for the placement of insurance, reinsurance or retrocession business. In fact, in certain cases we have expanded the broker's usage for this business-critical function. There are no client fees to RMS to use our models and data for any of these placement services through their broking relationships. These uses are fully enabled within the broker agreements.

2. Where a (re)insurance company licenses RMS models and products directly from RMS, we have newly and explicitly enabled brokers to provide a wider range of services leveraging RMS models and data to this client at no additional costs. In this way, RMS gets out of the way of the relationship between RMS clients and their brokers, which enables deeper and broader engagement leveraging RMS models, data, and products.
3. Where a (re)insurance company does not license RMS IP directly from RMS and relies or wishes to rely on RMS's models and data to the benefit of their business, we have explicitly created rights that allow brokers to provide discreet, defined additional services to those companies using RMS IP as the underlying basis. In these cases, we enable the (re)insurance company or the broker on behalf of the (re)insurance company to enter into narrower Restricted Use License agreements to satisfy focused needs, such as risk advisory services or regulatory/rating agency filings, where the RMS IP is accessed through their broker relationships. There are appropriate fees associated with these new license rights. It is fair that clients who leverage RMS models and data to run parts of their business would pay an appropriate fee for that. In this way, RMS clients are not subsidizing the free use of models, data, and products to be used by non-clients. RMS will also be launching programs for these new Restricted Use License clients to ensure they are getting good value, including informational webinars and access to RMS experts, as we learn over time what would enhance RMS's value to this group of clients.

To date, RMS has completed the new agreements with 12 broking groups. We are already seeing a closer engagement with certain brokers and their clients—as they find new ways to leverage RMS's R&D investments and resources. Clients of RMS are benefiting from our removal of restrictions on what brokers could do for them leveraging RMS IP. (Re)insurers who were not RMS clients have signed up under the new arrangement—there are nearly fifty (re)insurers either newly on board or in process under this arrangement, gaining rights for the enhanced services brokers are providing based on our IP. We are working closely with our remaining broker clients to bring them onto the new agreement and enable them to provide a richer set of services to their clients.

To action the new broking arrangement within the marketplace, the new agreement provides a "Notice and Acknowledgment letter" which a broker issues to their clients alongside any RMS output which is used in the reinsurance placement. Since all of RMS's contracts are under NDA, as too are many of the broker's contracts with their clients, we are unable to fully share client lists and entitlements with each other as to which companies license RMS IP or what analytics brokers provide to the clients across the world. If you are receiving RMS IP (through the reinsurance broking placement), you will receive a one-time "Notice and Acknowledgment" letter that states that either the client will only use the RMS output for the purpose of (re)insurance placement or, that they have a valid RMS license in place, to use this output for other purposes as permitted by their RMS license. While we understand that this process may seem cumbersome to some of our joint clients, it was the only way that we could effectively ensure that broker clients—especially those who are not RMS clients—clearly understand what their rights are and are not with respect to using the RMS model outputs and data, and to gain a commitment from clients that they will not use RMS IP outside of what is intended when it is accessed through reinsurance placement services provided by the broker.

As mentioned, in certain cases, we have discovered that some (re)insurance companies may have already been using the RMS IP via their broking relationships and in these cases we are working with all parties involved to enable any appropriate transition to the new arrangements if it is required.

I have attached a FAQ document that shares more detail. We have also started to proactively engage with the regulatory and rating community through the RMS network to inform them of these positive changes.

If you have specific issues or concerns, please reach out to Mike Steel, Global Head of Business Development, who is on point for RMS's strategic relationships with the broking community.

RMS strongly values the trust the industry places in our models, science and company, and is very respectful of all of its relationships. Through this new development we are not only expanding the opportunities for the industry to use our IP and benefit from our significant R&D investments, but are also creating consistency, transparency and certainty within the (re)insurance market regarding how we work together.

I look forward to the joint opportunities ahead.

Kind Regards,



Karen White

Chief Executive Officer at RMS

