



# FAQ

**Confidential Communication**

## **RMS Broker Agreements**

RMS is a key participant in the (re)insurance community and strongly values its industry relationships. As a company, RMS strives to deliver the most innovative and best model science, surrounded by data and analytics solutions that are valued by the market.

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 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. RMS values innovation and continues to invest heavily in its intellectual property with the goal of benefiting the industry by delivering superb risk insights. In fact, RMS conducted an internal analysis and measured that clients who increased their investment in RMS over five years had better financial outcomes, while clients who reduced their investment in RMS over five years had worsened financial outcomes. RMS believes that high-quality models, data and analytics lead to better outcomes for customers, which justifies our unusually high investment in R&D and the development of intellectual property.

RMS has entered into new broker agreements with the (re)insurance broking community to enable a wider use of our IP within the (re)insurance industry and to allow brokers to gain greater leverage from RMS's considerable R&D investment and resources.

Through these new agreements, RMS is enabling closer engagement with brokers and thus, stimulating new opportunities to leverage RMS's R&D investments and 1,300-employee organization. Certain brokers who have signed up to the new agreement have already seen benefits in various areas, such as our joint work regarding specific client analysis around the 2019 Bank of England's Climate Change stress test. In addition, as of April 2020, some 50 broker clients are either signed up for new services under the new structure or are in process.

## What has changed?

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 to us that brokers would like to extend this use to provide a wider 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, and to provide deeper advisory services rooted in part around RMS IP.

In the past, there were some restrictions within the 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 with our broking clients which enables 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.

To clarify the new arrangements, the high-level details are set out below:

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.

## Why has this changed?

Many (re)insurance companies and corporates have requested additional services from the brokers using the analytics resources of those broking firms and the IP from RMS. By entering into the new broking agreements, brokers can now provide these services to their client base using the full extent of RMS's IP.

We believe in a fair marketplace—one in that RMS paying customers should not be subsidizing the use of RMS IP among non-customers. Equally if we have situations where both a broker and their client license IP directly from RMS, we want to encourage a greater working engagement.

For a broker's clients who license RMS IP directly from RMS, these clients can now work extensively with their brokers, using the resources and expertise that many of the brokers have built up over the years through an active and fruitful engagement with RMS.

For a broker's clients who do not currently license RMS IP directly from RMS, these clients can now access the RMS IP, which would normally be used in (re)insurance placements for other very specific restricted purposes (such as rating agency filings) through a Restricted Use License.

From a regulatory perspective, the new arrangements create certainty in the outsourcing relationship between the (re)insurance companies and RMS by allowing RMS to fully meet its obligations under the regulatory outsourcing guidelines, and by allowing those companies to benefit from the extensive documentation and scientific resource within RMS in areas such as model validation.

## **Does this impact the placement of (re)insurance or retrocession by brokers, and the services they provide around that?**

No. There is no impact on the purchase, placing or underwriting of (re)insurance or retrocession business. In fact, we have increased the scope of data and analytics available to brokers to support their (re)insurance placement activities for their clients, regardless of whether they are an RMS client.

## **Is RMS withdrawing IP from the market?**

No. RMS is not withdrawing support for any company in the industry; it is creating a broader opportunity for the insurance industry and corporate community to use its IP, responding to many brokers' requests to provide a much wider range of services to their clients and the broker client requests to leverage RMS IP for discreet uses.

## **Does this affect every (re)insurance company a broker interacts with?**

Yes, for any (re)insurance company that is receiving RMS IP from its broker. However, through the provisions in the new agreement, RMS has enabled brokers to use its IP to offer a wide scope of usage to their smaller (re)insurance companies (those with less than \$100 million GWP) at no additional cost, and with no need for additional RMS Restricted Use Licenses for those smaller clients. We want to encourage the widescale use of data and analytics and believe that a more informed insurance industry will create better outcomes for all stakeholders.

Current RMS clients may now work with brokers in new ways, that were previously restricted in the agreements between RMS and brokers. This opens the opportunity for more strategic work and for RMS and the broker to bring more value to their joint customers.

(Re)insurance companies who are not RMS clients may obtain services from brokers through Restricted Use Licenses, and will also receive other new benefits from RMS.

## **When will this happen?**

To date, RMS has completed new agreements with 20 broking groups. The new arrangements are being implemented successfully. As other brokers are renewing their agreements with RMS, they are moving onto the new agreements. Some brokers are choosing to move to the new agreements earlier than their renewals so that they can take advantage of the opportunities that they provide and to offer additional services that use RMS IP beyond the scope of their current agreements with RMS.

## **My broker is not under the new agreement structure. Can I still enter into a Restricted Use License to use the RMS IP for purposes other than reinsurance placement?**

No. Restricted Use Licenses are only enabled by the new broking agreements.

### **How will this work in practice?**

There will be a standard set of disclaimers distributed with the (re)insurance program analytics that each broker provides. These disclaimers state that the analysis can only be used for the purpose of reinsurance purchasing decisions. This is to address any IP leakage issues and to ensure clients know what they can and cannot use the model results and analytics for.

In addition, to action the new broking arrangement within the marketplace, the new agreement provides a “Notice and Acknowledgement letter,” which a broker issues to their clients alongside any RMS output that 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 the broker’s client is receiving RMS IP (through the reinsurance broking placement), the client will receive a one-time “Notice and Acknowledgement 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 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.

We will be reaching out to (re)insurance companies who directly license RMS IP to ensure that the context of these letters is fully understood. Where we have already engaged with those clients, they have been fully supportive of this initiative.

If a (re)insurance company that currently does not license RMS IP would like to use the analytics within the reinsurance submission for another purpose, they can engage with the broker or RMS directly to facilitate this restricted or full-scale use as appropriate.

## **What happens if a (re)insurance company already uses RMS IP from its broker for other purposes outside of a reinsurance placement or retrocession?**

We have clarified the definition of (re)insurance placement with the new agreements and explicitly allowed certain use cases that are incidental to the reinsurance placement, such as confirmation (to a regulator) that (re)insurance is purchased to a fixed return period, among others.

However, we are aware that there are a number of (re)insurance companies that have historically used RMS IP (received from its broker during the (re)insurance placement process) for another, more extensive purpose. If those companies do not otherwise have a valid license in place, we will be working to arrange for the appropriate licenses on a going forward basis.

To the extent that neither the broker nor its client wishes to enter into the appropriate license grant for the use of that IP on an ongoing basis, then RMS will work with both parties to facilitate an orderly transition to an alternative view of risk.

## **What does this mean for the regulatory and rating agency community?**

There would be no negative impact on the regulatory or rating filings of any (re)insurance company as a result of RMS's new broker agreements.

Through the wider services that all brokers can now offer under the new agreement, its clients should have a more informed view of risk, which should lead to better business outcomes. Its clients will also have access to the full breadth of RMS's documentation framework and modelling staff to enable greater understanding of ceded and retained risk.

RMS is committed to avoiding any regulatory or rating agency instability in the (re)insurance community. To the extent that neither the broker nor its client wishes to enter into the appropriate license grant for the use of that IP on an ongoing basis, then RMS will work with both parties to facilitate an orderly transition to an alternative view of risk.

Because the new broker agreements require any (re)insurance client receiving RMS IP through their broker relationship to either have a direct license with RMS or a Restricted Use License, (re)insurance companies have full legal certainty on their relationship with RMS as an outsourcer or sub-outsourcer. This allows (re)insurance companies to clearly and fully satisfy their obligations under any regulatory outsourcing guidelines.

## If I want a Restricted Use License instead of a full use license directly with RMS, is that available to me?

Firstly, we believe that the largest (re)insurance companies in the world should have direct licenses with RMS to fully use the benefits of the considerable investments we are making to better understand risk and enable improved financial outcomes. Restricted Use Licenses are not available to this cohort.

RMS has enabled brokers to use its IP to offer a wide scope of usage to their smaller (re)insurance companies (those with less than \$100 million GWP) at no additional cost, and with no need for additional RMS Restricted Use Licenses with those smaller clients. We want to encourage the widescale use of data and analytics and believe that a more informed insurance industry will create better outcomes for all stakeholders.

For other (re)insurance companies, Restricted Use Licenses are offered only through a broker who has signed up under the new Master Broker Agreement and where that broker is providing the related analytical services leveraging broker-licensed RMS model IP. The terms within the broker agreements and the Restricted Use License include the fact that the broker is running the analysis on behalf of the client.

It should be noted that RMS does have an Analytical Services group that helps clients with their model analytics for specifically identified purposes. In some cases, (re)insurers outsource their model analytics team to RMS Analytical Services.



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RMS is the world's leading catastrophe risk modeling company. Insurers, reinsurers, trading companies, and public sector and financial organizations trust RMS solutions to help them better understand and manage the risks of natural and human-made catastrophes.

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