



Risk Management Solutions

Presentation to Analysts

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London

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Presentation Agenda



- ❑ Background
- ❑ Business Model
- ❑ Opportunities for Growth

What Business Are We In?



Risk Management Solutions is the world's leading provider of catastrophe models to the Property and Casualty Insurance Industry

RMS is an independent and objective provider of 'must-have' information needed to quantify, price, and hedge catastrophe risks

"The representation of risk in technologically enabled quantitative models is at the center of the changing world of how insurance risks are managed. These models offer significant benefits for the companies that use them"*

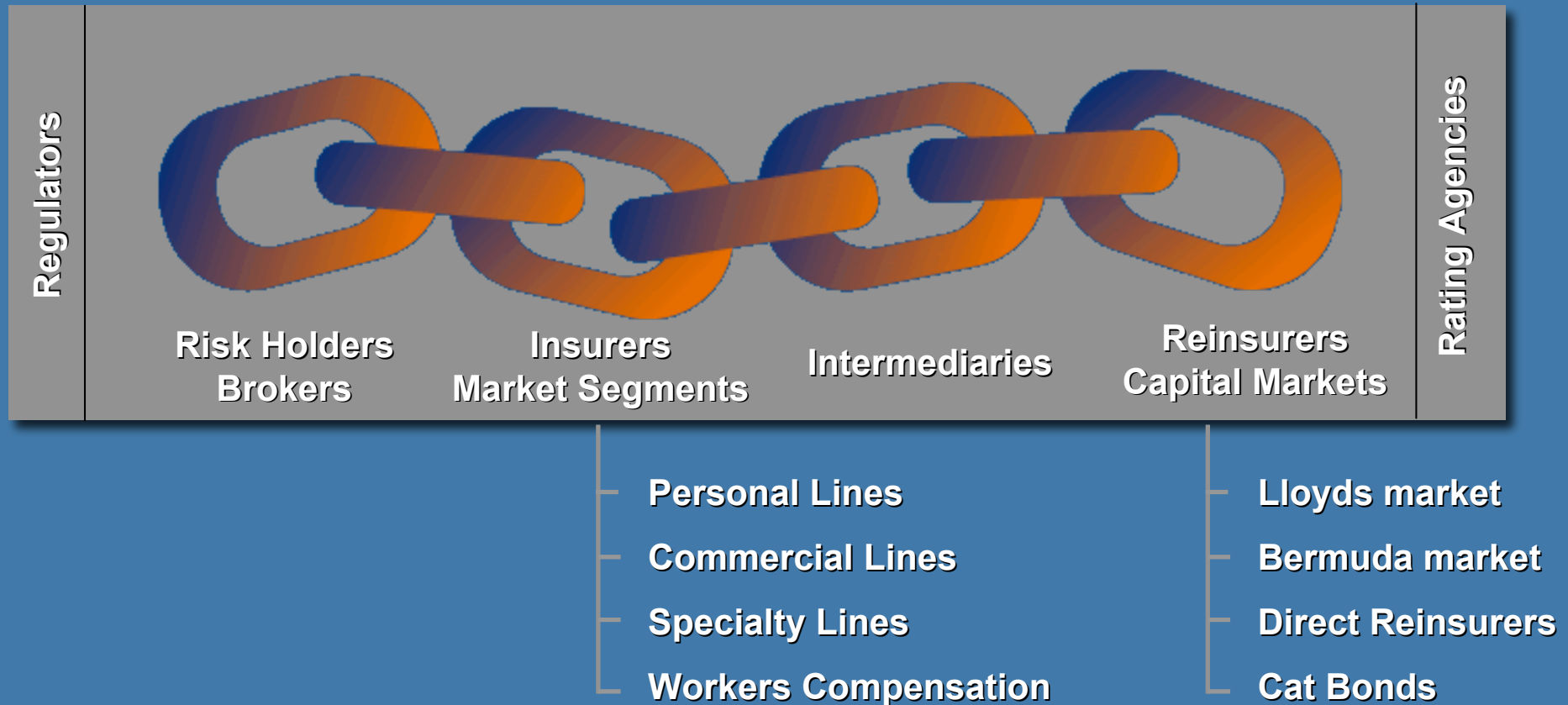
***TowerGroup**

RMS Facts in Brief

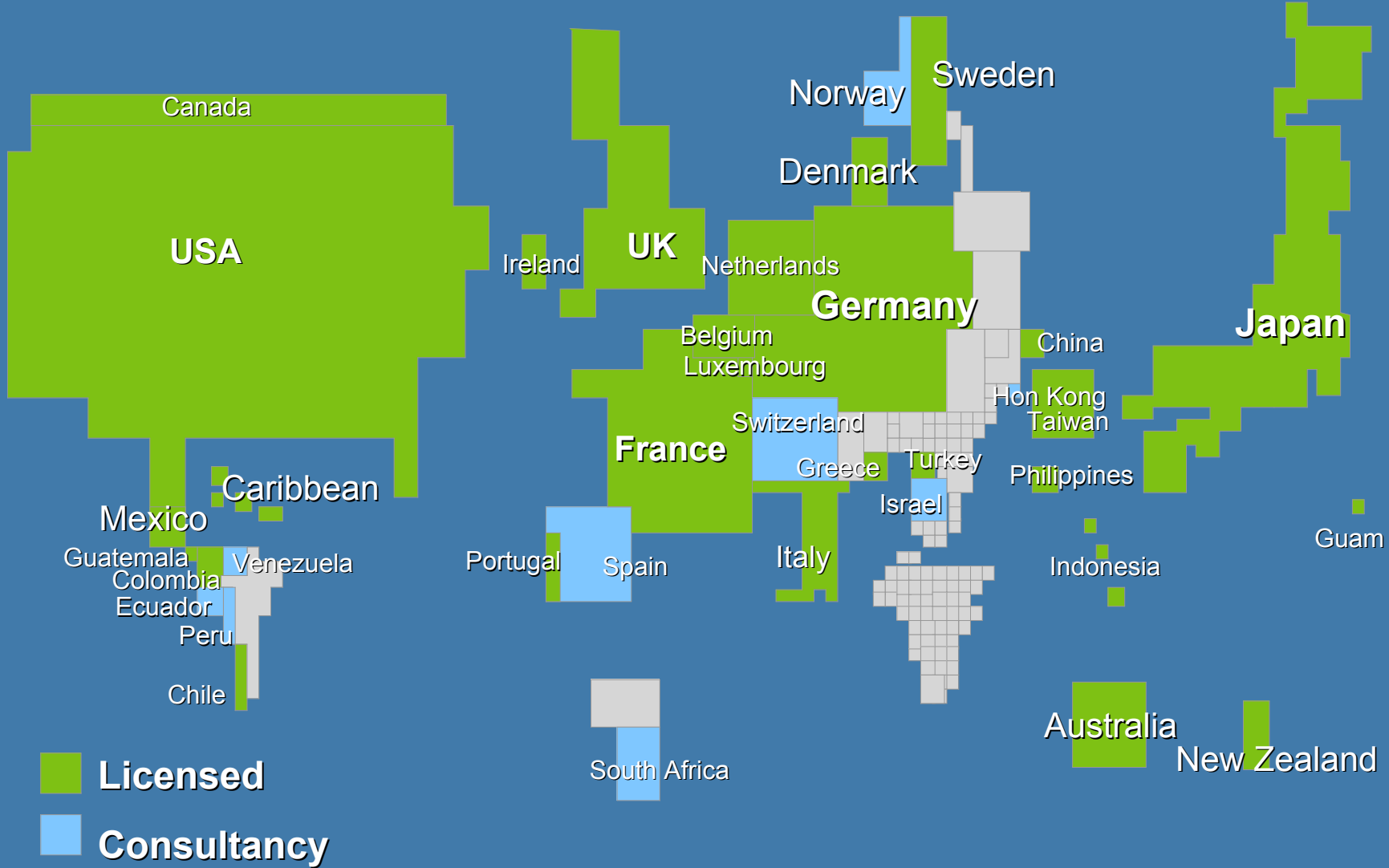


Origin	<ul style="list-style-type: none">– Founded in 1989 as a spin-off from Stanford U.– Two rounds of venture financing (1991, 1995) prior to DMGI acquisition in 1998
# Clients	~ 350 predominantly insurers, reinsurers
# Employees	~320 growing to ~370 by September 2006
Offices	<ul style="list-style-type: none">– Corporate office: Newark, California (SF Bay Area)– Regional: Illinois, New Jersey, London, Minneapolis, Tokyo, Bermuda
Products	<ul style="list-style-type: none">– Primarily, software licensed to clients for in-house use on PCs and Client-Server environments– ~5,000 users of RMS software products

Serving the \$1 Trillion Property & Casualty Insurance Vertical Market



Global Coverage for a Global Market



Why do Insurers use Catastrophe Models?



**Communicate risk
to key constituents**

**Respond to
catastrophes**

**Ensure
capital
adequacy**

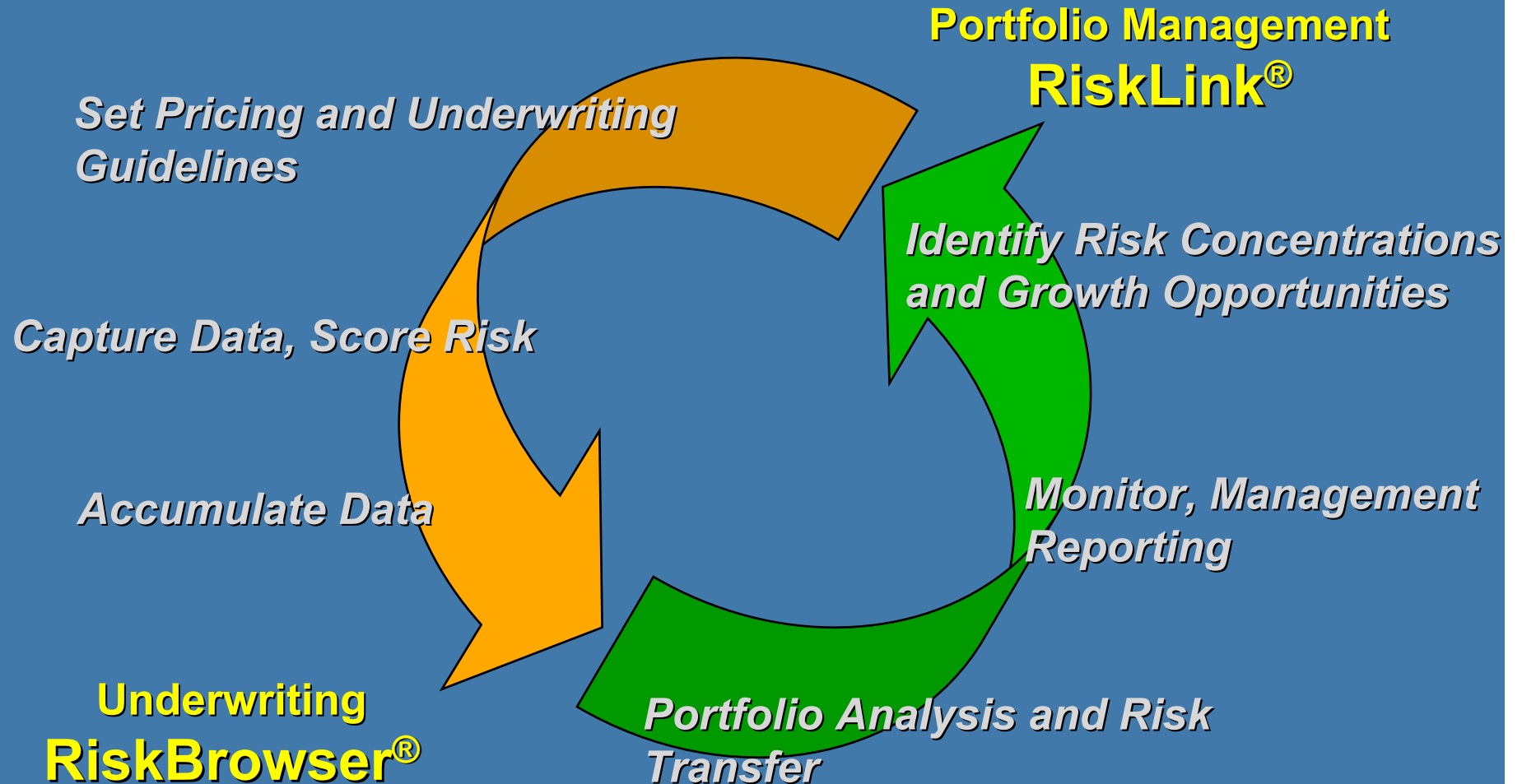


**Underwrite
and price
business**

**Manage portfolio
accumulation**

**Structure
risk transfer**

Infrastructure for Risk Management



Indication of Best Practice



Matt Mohser
Group Vice President, A.M. Best

“Most importantly, we view use of terrorism models as indicative of a strong culture of detail-oriented data acquisition, inquisitive risk assessment, and disciplined underwriting control”



James Orr
Loss Modeling Manager, Lloyd's

“Just as smoking is an indicator for other risk factors, the models allow us to see whether syndicates can gather quality data and look in a fine-grained way at loss distributions”

Core Portfolio Management Process



Ron Nash
Vice President, XL Capital

“Catastrophe management is a core business process, central to the management of capacity at both the business unit and corporate level.”



Mark Cravens
Senior Vice President, Wellington

“Data quality is critical and the teams strongly emphasize this and detailed modeling for all books of business, all lines and combined books are submitted monthly for analyses”

A Culture of Risk Management



Bill Riker
President, Renaissance Re

“Using models in this conscientious daily basis can seem daunting at first, but we have found that once people get used to the process, they adapt fast to the increased discipline”



Sean Ringstead
Chief Actuary, ACE Group

“Our business model has two related principles: disciplined underwriting and risk assessment. Catastrophe models are a vital part of the business process...serving as a gatekeeper to the business.”

“Cause for Debate”



Client #1

Investor Call Feb 6, '04

“Given our distrust of the models...

...we did not place a lot of reliance on the models expectation of loss”

Client #2

Investor Call Feb 17, '04

“The models performed very well on our catastrophe excess of loss portfolio as well as our property QS book....

We are pleased with how the models performed in general not just for loss estimation but for pricing our business.”

Convergence of Underwriting and Modeling



“The most important factor in improving underwriting is better information on risks...executives say believe that they need more granular risk assessments than traditional approaches”

- Economist & Deloitte Insurance Survey, 2003

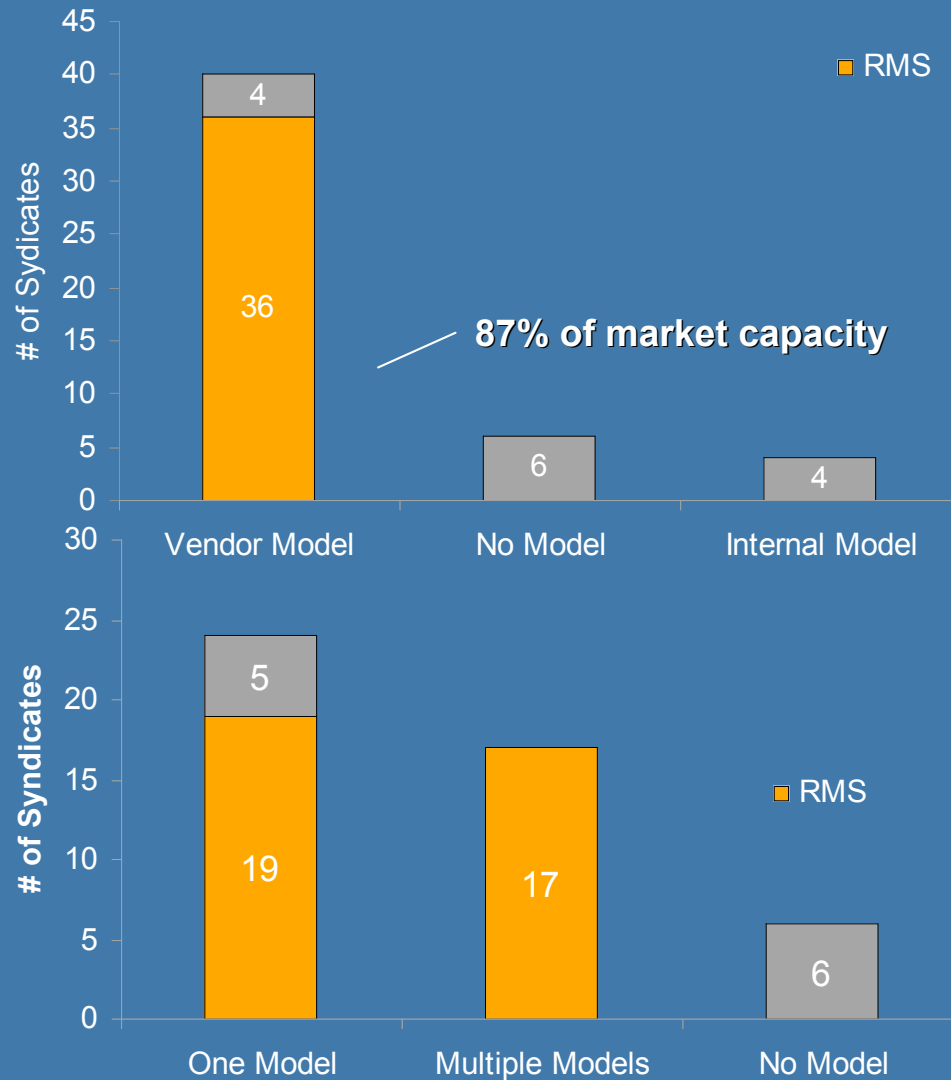
“Whether they misclassify risk or allow risk pricing to be driven by the market instead of underwriting discipline...is the fundamental driver of low returns in this industry”

- McKinsey & Company, The Journey Revisited 2004

“Disciplined underwriting will continue that highlights exposure data, related loss modeling and pertinent underwriting information”

- 2005 Insurance Market Overview

Lloyd's – RMS Relationship



Lloyd's of London is at the heart of the global catastrophe re(insurance) market

“We believe “London”, building on its concentration of highly skilled (re)insurance professionals and making use of technology, has the opportunity to regain its historic position as a “low cost” specialty market”
VJ Dowling, May 8, 2005

RMS Business Model



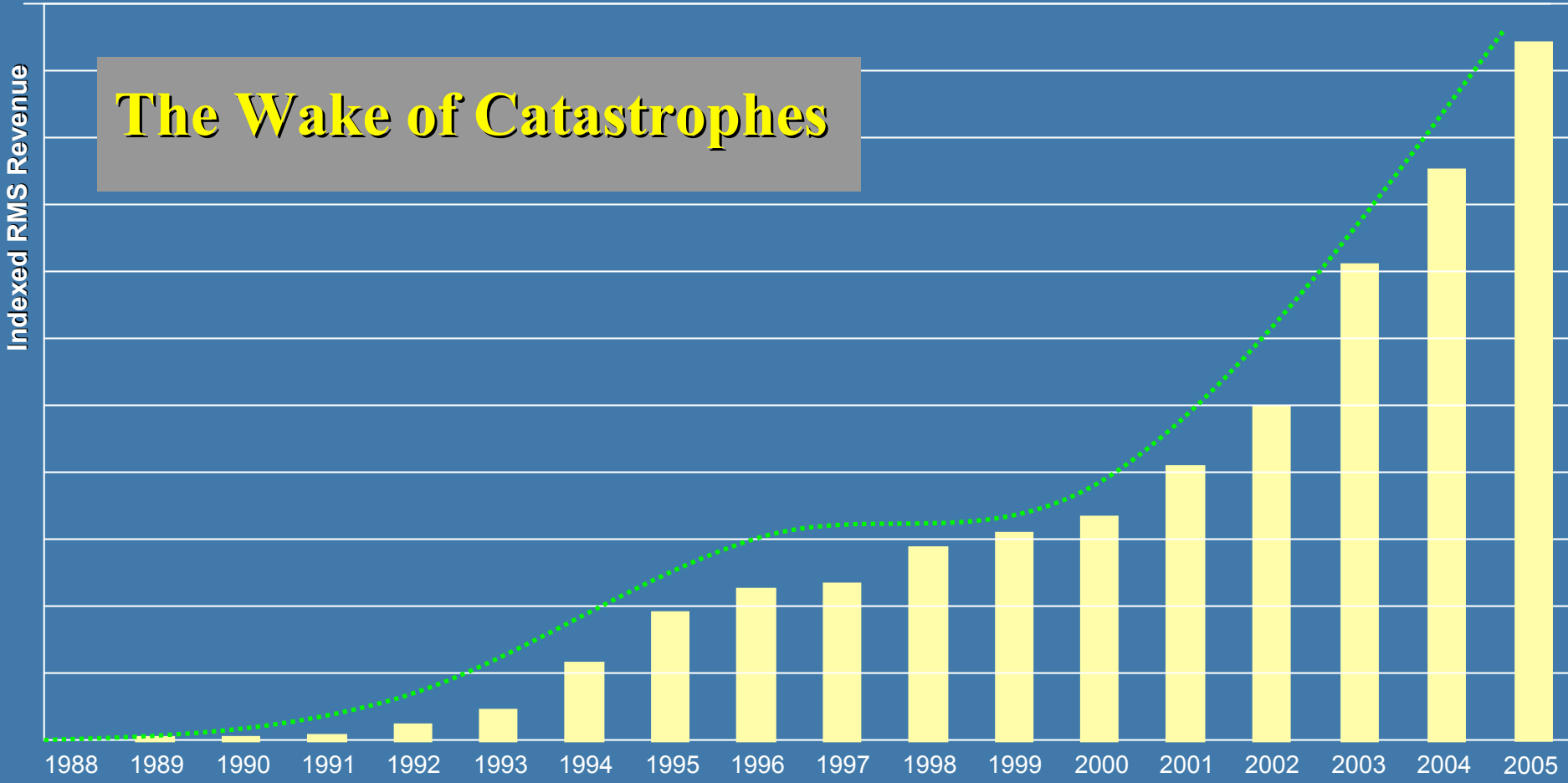
Large Addressable Market	<ul style="list-style-type: none"> - \$1 Trillion Global P&C Market - Modeling market still in relatively early stage of development
Clear Market Leader	<ul style="list-style-type: none"> - Market Share >50%; “Modeling Agency of the Year” - High barriers to entry
Must-Have Information	<ul style="list-style-type: none"> - Products embedded in customer workflows - Compelling, proven value proposition
Strong Client Relationships	<ul style="list-style-type: none"> - High touch, long-standing relationships with 100s of repeat customers - Partner of the business, not a vendor, contextualized by C-level client relationships
Subscription-Based Revenue Model	<ul style="list-style-type: none"> - Primarily annual licenses vs. service - 95% renewal rate; highly visible, consistent recurring revenue
High Quality Earnings and Growth	<ul style="list-style-type: none"> - Scalable cost structure enables increasing growth and operating margins - Significant cash generation capabilities
Track Record of Execution	<ul style="list-style-type: none"> - Consistent 20% growth + in both revenues and operating profits; sustainable operating margins of 35% + - Consistently met or beat expectations in each of past five years (20 quarters)

“ An elegantly simple business model that produces a powerful investment story.”

--Greenhill & Co, 2004

Hurricane Hugo	Typhoon Mireille	Hurricane Andrew	Northridge EQ	Kobe EQ	French Windstorms	9/11	Central European Floods	'04 US Hurricanes "Year of the Typhoon"	Katrina
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The Wake of Catastrophes



Strategic Aspiration



RMS aspires to build the most valuable brand the global P&C industry by supporting, and at times catalyzing, more objective and quantitative business practices through provision of models and related risk management software systems and services

Future Opportunities for Growth



- ❑ Sustain long-term organic revenue growth of 15%+
- ❑ Continued focus on insurance vertical market
- ❑ Market remains in early stages of development

Perils (e.g. Terrorism, Fire & Explosion, Liability Cat)	Geographies (e.g. US – Europe – Asia)
Lines of Business (e.g. Offshore Platform, Workers Compensation)	Applications (e.g. u/w workstation)

Advice for Modelers



The Unknown

As we know,

There are known knowns.

There are things we know we know.

We also know

There are known unknowns.

That is to say

We know there are some things

We do not know.

But there are also unknown unknowns,

The ones we don't know

We don't know.

- Donald Rumsfeld