

PURE SPECIALTY EXCHANGE

Membership Agreement Summary and Signature Page

PURE Specialty Exchange (“PSE”) is a reciprocal insurance exchange, which is one of three common types of insurance companies, the others being a stock insurance company and a mutual insurance company. A reciprocal is an unincorporated insurance company whose policyholders, known as subscribers and referred to herein as “members”, exchange contracts of insurance with each other, facilitated on their behalf by a company known as an attorney-in-fact. All members sign this Membership Agreement (the “Agreement”) to give PURE Specialty Risk Management LLC (“PSRM”) the ability to operate as the attorney-in-fact for PSE. Members may be referred to as “you,” “your,” “member(s)” or “membership.”

At PSE, our insurance offerings fall into two categories: 1) Participating Policies; and 2) Nonparticipating Policies. Members that purchase Participating Policies are eligible for Member Savings Accounts and Senior Member status as detailed below. Members that purchase Nonparticipating Policies are ineligible for Member Savings Accounts and Senior Member status. Our intent is that policies serving individuals or entities created for the purpose of personal estate planning or asset management (such as an LLC or Trust) would be Participating, while policies serving commercial institutions or entities for the benefit of a group of people (such as a group excess policy) would be Nonparticipating. Each policy’s declaration’s page will identify whether it is a Participating Policy or Nonparticipating Policy.

Please review the attached Agreement and sign below to acknowledge your intention to be legally bound by its terms and conditions. A summary of key provisions of the Agreement are as follows:

Non-Assessable Policies: PSE only issues non-assessable policies consistent with all applicable state statutes. Your liability is limited to the cost of your insurance including premiums and Surplus Contributions (if applicable) for your policies.

Management of Insurer: You are designating PSRM, a for-profit entity, to be the attorney-in-fact for PSE. PSRM will manage all insurance and reinsurance operations of PSE for you and other PSE members. Members purchasing a Nonparticipating Policy agree and understand that PSRM has the right to contact each certificate holder covered directly.

Management Compensation: In consideration for the services provided, PSRM will be compensated by a fee of 30% of gross written premium of insurance policies issued by PSE. PSE retains certain expenses outlined below and in the Attorney-in-Fact Agreement available on the PURE Specialty Exchange website.

Members’ Advisory Committee: PSE has established a Members’ Advisory Committee (“MAC”) to give the membership a voice in the operations of PSE and to exercise member rights. PSE indemnifies and defends MAC members and you agree not to sue MAC members for their services. To learn more about the MAC and its members, visit the PURE Specialty Exchange website.

Surplus Contributions: Members agree to make surplus contributions during the first five (5) years of any policy (“Surplus Contributions”) that they purchase. Those Surplus Contributions help reduce the cost of PSE’s capital. Surplus Contributions are set at 10% of total annual premiums for all policies. Surplus Contributions may be adjusted or waived for certain policy types at the sole discretion of PSRM. Surplus Contributions will be quantified on the policy declarations page and are billed and collected with premium. Members should not expect a return of Surplus Contributions other than on a pro-rata basis for policies cancelled mid-term.

Member Savings Accounts (“MSAs”): MSAs are notional accounts held for each member with an active Participating Policy. At its sole discretion, PSRM will evaluate the performance of PSE and may allocate a portion of surplus gains to MSAs. Any allocation to MSAs is subject to the prior written approval of the Arizona Department of Insurance and Financial Institutions. Funds allocated to MSAs remain on PSE’s balance sheet and are available as part of its overall claims paying ability. Members should expect a return of their ending MSA balance in the event they no longer have any active Participating Policy subject to a three (3) year continuous membership vesting period. For more information, visit the PURE Specialty Exchange website.

Senior Member Status: After ten (10) full years of continuous PSE membership with an active Participating Policy, a member will be deemed a Senior Member. Senior Members will be eligible to receive an annual distribution, at PRMS’ discretion, not to exceed 20% of their MSA balance from the previous calendar year, subject to the prior written approval of the Arizona Department of Insurance and Financial Institutions.

Paperless Company: By purchasing a policy from PSE, you agree to receive your insurance policies, invoices and all other documents related to your insurance and membership electronically. A member purchasing a Nonparticipating Policy agrees on behalf of all covered persons, including but limited to certificate holders, that such covered persons agree to receive all such documents electronically and will notify such persons of the electronic delivery. Each member purchasing a Nonparticipating Policy agrees to provide electronic delivery contact information for all such covered persons. If any member or person covered under any PSE policy rejects electronically delivery, they will be declined for coverage or their coverage will be terminated. PSE may charge certain fees in addition to premium and Surplus Contributions for increased costs associated with certain activities, e.g. credit card fees.

Amendments: This Agreement may only be amended jointly by the MAC and PSRM and amendments shall be subject to the prior written approval of the Arizona Department of Insurance and Financial Institutions. Amendments will be disclosed in a member communication and continuation of any of your policies after disclosure of the amendment will constitute your agreement to be legally bound by the amendment.

This is a summary of the Agreement. Please read the entire Agreement for the precise terms you are agreeing to when you sign below. I acknowledge, agree and intend to be legally bound by all terms and conditions contained in the Agreement.

Receipt Acknowledged:
PURE Specialty Exchange
By: PURE Specialty Risk Management, LLC
Document version dated October, 2021

Signature and Date

Print Name

PURE SPECIALTY EXCHANGE

Membership Agreement

All subscribers (hereinafter referred to as “members”) sign this Membership Agreement (the “Agreement”) to give PURE Specialty Risk Management LLC (“PSRM”) the ability to operate as the attorney-in-fact for PSE. Members may be referred to as “you,” “your,” “member(s)” or “membership.” At PSE, our insurance offerings fall into two categories: 1) Participating Policies; and 2) Nonparticipating Policies. Members that purchase Participating Policies are eligible for Member Savings Accounts and Senior Member status as detailed below. Members that purchase Nonparticipating Policies and their certificate holders are not eligible for Member Savings Accounts and Senior Member status. Each policy’s declaration’s page will identify whether it is a Participating Policy or a Nonparticipating Policy.

You agree with PSRM, an Arizona limited liability company, as the attorney-in-fact for PSE, with the terms below.

1 Power of the Management Company: You hereby appoint PSRM as the attorney-in-fact with the express authority and permission to effectuate and conduct the lawful business affairs of PSE. This authority includes the ability to carry out all customary functions of a reciprocal insurance company and reinsurance company, including but not limited to the following responsibilities:

- Exchange with other members of PSE any and all kinds of reciprocal insurance contracts for which PSE is eligible by law to write
- Enter agreements with surplus lines brokers and retail producers
- Issue, exchange, renew, non-renew, or cancel or modify insurance policies
- Adjust, settle, defend, litigate, appeal, and pay claims or losses under the insurance policies of members
- Act as intermediary to obtain reinsurance for PSE
- Accept service of process on behalf of PSE in actions against PSE
- Open accounts and borrow money in the name of PSE
- Assume reinsurance on behalf of PSE
- Hire and compensate personnel
- Collect premiums and invest and reinvest
- Receive notices and proof of loss
- Determine the amount and distribution of Member Savings Accounts
- Underwrite, cancel, or service assumed reinsurance contracts

This power of attorney is limited to the purposes described in this Agreement.

In consideration for the services provided to PSE, PSRM will deduct from advance premium and/or collect from deposits its initial compensation as follows:

30% of gross written premium of insurance policies issued by PSE

PSRM uses its compensation, in part, to cover many costs of insurance operations including commissions paid to retail producers. The amount of compensation to PSRM as set forth in detail in the Attorney-in-Fact Agreement may be modified or reviewed as agreed to by both PSE and PSRM. Any changes to PSRM’s compensation are subject to prior approval by the Arizona Department of Insurance and Financial Institutions and will be disclosed to the membership.

In addition to losses and the fees outlined above, PSE will retain the following expenses: third party and PSRM allocated loss adjustment expenses at cost, surplus lines taxes, stamping fees, investment expenses, legal and advisory expenses, court costs, taxes, assessments, license fees, membership fees, governmental fines and penalties, reinsurance premiums and costs (including reinsurance brokerage fees), audit fees, guaranty fund assessments.

The PSRM offices will be the same as PSE’s principal office, located at 6263 N. Scottsdale Road, Suite 245, Scottsdale, Arizona, 85250, but may be changed upon notice to members and in compliance with the requirements of the State of Arizona. The arrangement between PSE and PSRM is further outlined in the Attorney-in-Fact Agreement, available for review at the PURE Specialty Exchange website, or upon request.

2 Exchange and Issuance of Policies: You hereby offer and agree to exchange policies with the other members to PSE. You understand and agree that the contracts to be exchanged hereunder are non-assessable consistent with section 20-782, Arizona Revised Statutes, thereby limiting your liability to PSE to costs associated with the policies of insurance. You further understand that, at any time, PSE may expand or reduce its products, market participation, and eligibility guidelines without notice to any members.

3 Members’ Advisory Committee: You understand that PSE and PSRM have established a Members’ Advisory Committee (“MAC”) pursuant to section 20-781, Arizona Revised Statutes, to exercise membership rights. The MAC will be elected under rules which are available at the PURE Specialty Exchange website, or upon request. You agree the MAC shall:

- (a) have only the enumerated responsibilities granted to it;
- (b) exercise the rights of all members; and
- (c) consist of at least two-thirds current members of PSE that are independent from PSE’s attorney-in-fact. Pursuant to section 20-781, Arizona Revised Statutes, you agree the MAC shall: (i) Supervise the finances of PSE by annually reviewing the financial rating of PSE to confirm it is satisfactory. A financial rating acceptable to Fannie Mae pursuant to section B7-3-01: Property Insurance Requirements for Insurers, of its Seller Guide, shall be confirmation the finances of PSE are satisfactory. If the financial rating drops below such threshold, the MAC and PSRM leadership will meet to discuss ways to improve it; (ii) On an annual basis, direct the internal audit department used by PSRM to conduct an audit to assure material conformity with this Agreement and the Attorney-in-Fact Agreement, and review the finding of such audit; (iii) Procure an external audit of the accounts and records of PSE and PSRM, both at the expense of PSE, and meet annually with the external auditor to discuss the audit, where a portion of such meeting shall be in the absence of PSRM leadership; and (iv) Designate a MAC member to serve as a contact for Whistleblower complaints. The MAC will be apprised of any credible Whistleblower complaint, allegation of criminal conduct, or other complaint to a government agency, including the Arizona Department of Insurance and Financial Institutions, alleging conduct that may materially impact the financial stability of PSE. The MAC may participate, at the expense of PSE, in the investigation of such a complaint.

You agree completion of i –iv above by the MAC is in compliance with the cited statute and that the MAC is not responsible for overseeing the day to day operation of PSE or the strategic business decisions made by PSRM. Absent a finding of criminal or willful misconduct or recklessness, you agree PSE shall defend, indemnify and hold wholly harmless each MAC member and the MAC from and against liability arising from participation or membership on the MAC and you agree not to sue or name in any action or affirmative defense any MAC member or the MAC. Absent a finding of criminal or willful misconduct or recklessness and except for legal actions that may arise directly from your insurance policy(ies) or legal actions to enforce this contract, you agree PSE will not be sued or named in any action or affirmative defense by you.

4 Member Surplus:

(a) **Surplus Contribution.** Members agree to make, in addition to policy premium payments, a surplus contribution to PSE (“Surplus Contribution”). The Surplus Contribution will be quantified on the policy declaration page and is payable to PSE on or prior to the initial effective date of coverage, or in accordance with the first bill, and within 30 days of the effective date of all endorsements generating an additional premium. The Surplus Contribution will be made during the first five (5) full years of each policy designated as a Participating Policy. If a member terminates a policy, and then buys the same policy at a later date, the years will reset and start from zero. Surplus Contributions may be adjusted or waived for certain policy types at the sole discretion of PSRM.

The current Surplus Contributions for each Participating Policy is 10% of total annual premiums.

(b) **Purpose of Surplus Contribution.** Each member purchasing a policy understands and agrees that the amounts paid as Surplus Contributions will be credited as surplus for the benefit and protection of PSE and that Surplus Contributions made to PSE are not premiums for insurance. Each member understands and agrees that the ability of PSE to return Surplus Contributions is subject to provisions of this Section 4 and is limited by law.

(c) **Return of Surplus Contribution.** Surplus Contributions will only be returned in the event of cancellation of a policy, in which case, PSRM will return any Surplus Contributions (without interest) made during the current policy term only on a pro-rata basis. All other Surplus Contributions, including those made on previous policy terms, will be retained by PSE for the benefit of PSE.

(d) **Member Savings Accounts.** PSE will maintain separate Member Savings Accounts (“MSA”) for each member with an active Participating Policy, and set aside as a credit for each such member. At its sole discretion, PSRM will evaluate the performance of PSE and may allocate a portion of surplus gains to MSAs. Any allocation to MSAs is subject to the prior written approval of the Arizona Department of Insurance and Financial Institutions. MSA allocations, if any, will be made during the following year. Each member understands and agrees that:

- i. any MSA allocations to be made to for each member with a Participating Policy are based on PSE’s overall results, not the results of any specific member; and,
- ii. funds held in an MSA are considered surplus and that PSRM is authorized to use any and all of these surplus funds to pay any unsatisfied obligations. As set forth in this Agreement, each member with a Participating Policy may be eligible for a distribution from their MSA once they are no longer a member of PSE subject to a three (3) year vesting period. To meet the vesting period, a member must have continuous membership with an active policy designated as a Participating Policy for three (3) consecutive annual policy terms. If a member terminates all policies designated as a Participating Policy before the vesting period, the member will not be eligible for a distribution from their MSA. In order to avoid any impairment to the surplus of PSE, PSRM retains the right to limit the distribution from the MSA to any member whose coverage has been terminated.

(e) **Senior Member Status.** After ten (10) full years of continuous PSE membership with an active Participating Policy, a member will be deemed a Senior Member. A Senior Member will be eligible to receive an annual distribution not to exceed 20% of their MSA balance from the previous calendar year, subject to the prior written approval of the Arizona Department of Insurance and Financial Institutions. If a Senior Member terminates all policies designated as a Participating Policy, they are no longer a Senior Member.

(f) **Limitations on Distributions of Surplus Contributions and Member Savings Accounts.** No payment of a returned Surplus Contribution or distribution of MSA funds, including those to a Senior Member, will be made if such payment could risk the financial impairment of PSE. Payments could be delayed if the total payments of Surplus Contributions or MSAs within the preceding 12 months to any terminated member would exceed the lesser of:

- i. ten (10) percent of PSE’s total surplus as of the preceding December 31, or
- ii. PSE’s total net income before savings allocations and federal income taxes for the preceding full calendar year.

If payment to more than one terminated member is delayed pursuant to the requirement set forth in this Section, the total amount which may be paid to terminated members will be paid pro rata to all such terminated members who meet the conditions to receive distributions from MSAs or Surplus Contributions set forth in this document on an equitable basis as determined by PSRM, in its sole discretion, and as allowed by law.

Any payments delayed pursuant to this requirement will be paid as soon as possible when payment can be made in compliance with this Section. If this Section (4) is found to conflict with other terms of this Agreement, this Section (4) supersedes all other terms and conditions of this Agreement.

5 **Assumed Reinsurance:** PSE may act as a reinsurer by assuming reinsurance from other insurance companies. Reinsurance premium will not be included in the calculation of compensation owed to PSRM for acting as the Attorney-in-Fact of PSE. PSRM, or an affiliate, may, however, act as the reinsurance broker for assumed reinsurance. As compensation for acting as the reinsurance broker, PSRM, or its affiliate, may receive from PSE a fee as is customary in the reinsurance industry. Members understand and agree that ceding insurance carriers may use the services of PSRM affiliates, such as PURE Programs LLC, as insurance producers on insurance programs ultimately reinsured by PSE.

6 **Rejection of Coverage:** You understand and agree that PSE has an obligation to its membership to maintain strict eligibility and underwriting requirements. PSE has the right to reject any application for insurance and the offer of payment of premium and Surplus Contribution. If such a rejection of coverage occurs after receipt of the Surplus Contribution by PSE, the Surplus Contribution will be returned to the prospective member, without payment of interest. An existing member applying for additional lines of coverage is not guaranteed acceptance for those new lines of coverage.

7 **Termination:** This Agreement may be terminated at any time by you or PSRM, by terminating all insurance policies issued to you, subject to policy provisions and applicable law. Upon the termination of all insurance policies, subject to the approval of the Arizona Department of Insurance and Financial Institutions and as set forth in this Agreement, the balance remaining in your MSA (subject to the three (3) year vesting period) or eligible Surplus Contribution, if any, after allocation of expenses and claims, will be returned to you, within six (6) months.

8 **Collateralization of Assets:** No assets or future dividends of PSE may be pledged or collateralized on behalf of any member for any purpose.

9 **Return of Surplus upon Liquidation:** You understand and agree that in accordance with Section 20-789, Arizona Revised Statutes, upon the liquidation of PSE, its assets will be distributed to its members who were such within the 12 months prior to the termination of its certificate of authority, subject to regulatory approval. The assets of PSE to be distributed upon regulatory approval, are those remaining after the discharge of its indebtedness and policy obligations, the return of any surplus notes or other contributions made to surplus, and the return of any unused premium and savings in MSAs.

10 **Paperless and Surcharges:** By purchasing a policy from PSE, you agree to receive your insurance policies, invoices and all other documents related

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to your insurance and membership electronically. A member purchasing a Nonparticipating Policy agrees on behalf of all covered persons, including but limited to certificate holders, that such covered persons agree to receive all such documents electronically and will notify such persons of the electronic delivery. Each member purchasing a Nonparticipating Policy agrees to provide electronic delivery contact information for all such covered persons. If any member or person covered under any PSE policy rejects electronically delivery, they will be declined for coverage or their coverage will be terminated.

PSE may charge certain fees in addition to premium and surplus contribution for increased costs associated with certain activities, e.g. credit card fees.

- 11 **Amendments:** This Agreement may only be amended jointly by the MAC and PSRM and amendments shall be subject to the prior written approval of the Arizona Department of Insurance and Financial Institutions and shall be effective as to all members immediately. Amendments will be disclosed in a member communication and continuation of any of your policies after disclosure of the amendment will constitute your agreement to be legally bound by the amendment.
- 12 **Governing Law:** This Membership Agreement and all matters relating to its validity, interpretation, performance, and enforcement shall be governed and construed in accordance with the laws of the State of Arizona (without regard to conflict of law principles thereof).
- 13 **Binding Agreement:** You agree that this Membership Agreement, including the power of attorney set forth herein, will apply to all insurance policies for which you have applied or will apply at PSE. You hereby acknowledge receiving and reviewing the Powers of the Members' Advisory Committee and the Attorney-in-Fact Agreement (available at the PURE Specialty Exchange website or from your insurance broker), prior to executing this Agreement. You understand and agree that the terms and conditions of the Membership Agreement, the Powers of the Members' Advisory Committee and the Attorney-in-Fact Agreement will be valid and binding and acknowledged and accepted by you and PSRM and your respective representatives, administrators, successors, and assigns as indicated by the your signature on page 1.

Each member agrees that by paying premium to PSE for your insurance policy, you hereby agree and accept the terms of this Agreement in the event a signed copy cannot be produced. This Agreement is and shall be binding upon you, us, and all executors, administrators, successors, and assigns.