ILLINOIS DEPARTMENT OF INSURANCE
MEDICAL MALPRACTICE REPORTING
EXHIBIT 2B RESERVE STUDY

1. PROVIDE A GENERAL DESCRIPTION OF THE ACTUARIAL METHODOLOGIES USED TO DETERMINE AND MONITOR CARRIED LOSS AND LAE RESERVES FOR THE MEDICAL MALPRACTICE BUSINESS WRITTEN, INCLUDING FREQUENCY OF REVIEWS.

   The following excerpt is extracted from the most recent Actuarial Report on Loss and Loss Adjustment Expense Reserves issued annually by the Company's independent actuary, PricewaterhouseCoopers:

   Loss and ALAE Reserves

   In developing the loss reserve estimates shown in this report, PWC first projected losses to estimated ultimate values using two actuarial methods. A selected ultimate value based on the results of the various projection methods was derived by reviewing the various ultimate estimates and applying actuarial judgment to achieve a reasonable point estimate for the ultimate liability. The selected reserves were then determined as the difference between the selected ultimate loss and the paid loss. The difference between the selected ultimate loss and the incurred loss is PwC's estimate of the reserve for losses which were incurred but not reported (IBNR). The following actuarial methods were used in projecting ultimate losses:

   - **Incurred Bornhuetter-Ferguson method; and**
   - **Paid Bornhuetter-Ferguson method**

2. DISCUSS THE ADEQUACY OF MEDICAL MALPRACTICE LOSS AND LAE RESERVES AS OF THE MOST RECENT YEAR-END AND IDENTIFY AND DESCRIBE ANY MATERIAL CHANGES IN THE PAST FIVE YEARS IN AMOUNTS OF CARRIED RESERVES AND IN RESERVING METHODS. IF MATERIAL UNFAVORABLE TREND EXISTS, INDICATE WHAT ACTIONS WERE TAKEN TO ADDRESS THE ISSUE. IDENTIFY THE MATERIALITY STANDARD USED TO RESPOND TO THIS QUESTION AND PROVIDE THE BASIS FOR THIS STANDARD.

   Claim reserves continue to be positioned near the "high estimate" of needed reserves, as determined by the independent consulting actuary. These reserves are carried at their full estimated future value and have not been discounted.

There have been no material changes in PwC's reserving methodologies during the past five years. Growth in carried reserves during the past five years is related to premium growth and positioning reserves near the actuary's "high estimate". As in prior years, claim reserves as of year end are positioned near the "high estimate" of needed reserves, as determined by an independent consulting actuary. These reserves are carried at their full estimated future value and have not been discounted.

Losses and LAE incurred in 2007 declined $2.0M (46%) compared to prior year. $1.1M of this change is due to decreased IBNR and $921K is due to decreased case incurred losses and expenses. The number of claims reported during 2007 was virtually unchanged from prior year despite a 20% increase in earned premium, evidencing a decline in frequency. Offsetting a 40% increase in severity on first year claims, resulting from undeveloped case reserves, is favorable one year development on prior years claims of $3.1M that is primarily concentrated in the 2004 and 2005 report years, as reflected in Schedule P Part 2. Claim reserves attributable to report years 2006 and prior decreased $5.7M (52%) from $10.9M to $5.2M in 2007 as additional information became known regarding individual claims and through on-going analysis of recent loss development trends.

Following is an excerpt from the Company's independent actuary's Statement of Actuarial Opinion that defines their materiality standard:

> Based on our understanding of the use of this Opinion, we evaluated materiality as the minimum of (1) 15% of the Company's loss and LAE reserves, (2) 25% of the statutory surplus and (3) the action/control level from the Risk-Based Capital position, all as of December 31, 2007. We did not evaluate materiality in any other context. In this Opinion, PwC considered the potential for adverse deviation of $1.6 million to be material. At this time, our assessment is that the Company does have a significant potential for a material adverse deviation. The Company has not made material changes in the actuarial assumptions or methods used to establish the recorded reserves from those used in the previous period.

3. COMPARE COMPANY TRENDS TO INDUSTRY TRENDS, WITH REGARDS TO THE MEDICAL MALPRACTICE LINE OF BUSINESS AND INCLUDE INFORMATION ABOUT THE SPECIFIC BUSINESS WRITTEN BY THE COMPANYAND, IF NECESSARY, REASONS WHY COMPANY TRENDS ARE DIFFERENT FROM THE INDUSTRY.

Medical Liability Alliance (MLA) is a stock property and casualty insurance company domiciled in the State of Missouri. It is licensed to write business in three states, Missouri, Illinois and Kansas, however it is primarily focused on insuring Missouri healthcare providers. One hundred percent of the voting common stock is held by Missouri Hospital Plan (MHP), an assessment association formed and operating under the provisions of Chapter 383 of the Revised Statutes of Missouri. MLA was formed in 1996 to primarily write professional and general liability insurance for those entities and individuals affiliated with MHP policyholders that do not meet MHP's eligibility standards. Those limitations were relaxed in 2006 to physicians who are not affiliates. MLA provides primary limits of liability up to $1M per occurrence and $3M in the aggregate, but additional limits can be considered.

The Company wrote its first IL exposures in 2005 as an accommodation to serve its Missouri base with ancillary exposures across the border. Direct premium written totaled only $545K, $489K, and $766K in 2005, 2006, and 2007, respectively. No material changes are anticipated in the future. The Company's expense ratios during these periods were 14.8%, 17.7%, and 16.8%, respectively, which compare favorably to industry norms.

ILLINOIS DEPARTMENT OF INSURANCE
MEDICAL MALPRACTICE REPORTING
EXHIBIT 2B SURPLUS STUDY

1. PROVIDE A GENERAL DESCRIPTION REGARDING THE ADEQUACY OF SURPLUS REPORTED IN THE ANNUAL STATEMENT, PAGE 3, LINE 35, AS OF THE LAST YEAR-END.

   The Company's parent company, Missouri Hospital Plan (MHP) continues to support MLA's objective to grow in a controlled manner to serve its target market. Policyholder surplus increased $3.9M (23%) in 2007 due to current year operating results. This compares to a prior period surplus increase of $1.6M (10%).

   MLA's 2007 surplus is 33 times RBC ACL compared to 25 times and 17 times RBC ACL in 2006 and 2005, respectively; and is deemed adequate to support future business goals and objectives.

2. IDENTIFY AND DESCRIBE ANY MATERIAL EVENTS OR KNOWN MATERIAL TRENDS, FAVORABLE OR UNFAVORABLE, IN THE INSURER'S SURPLUS ACCOUNT IN THE PAST FIVE YEARS. THIS DESCRIPTION SHOULD INCLUDE ANY SIGNIFICANT CHANGES IN THE SURPLUS RATIOS SHOWN IN EXHIBIT A. IF A MATERIAL UNFAVORABLE TREND EXISTS, INDICATE THE COURSES OF REMEDIAL ACTIONS ALREADY TAKEN OR THAT ARE AVAILABLE TO THE INSURER AND THE EFFECTS OR POTENTIAL EFFECTS OF EACH. IDENTIFY THE MATERIALITY STANDARD USED TO RESPOND TO THIS ITEM AND PROVIDE THE BASIS FOR THIS STANDARD.

   50,000 shares of MLA common stock are authorized, 42,000 of which are issued and outstanding at a par value of $100 per share.

   - **12,000 shares were initially issued in February 1996 to MHP at $300 per share**
   - **8,000 additional shares were issued in March 2003 to MHP at $300 per share**
   - **7,000 additional shares were issued in March 2005 to MHP at $300 per share**
   - **15,000 additional shares were issued in December 2005 to MHP to support MLA operating needs**

   As previously mentioned, there has been steady organic growth in unassigned funds during the last several years.

The Consulting Actuarial Report and Data Supporting the Company's Rate Filing shall be included in File 4. Each company shall file the actuarial report providing justification and data supporting the most recent medical malpractice rate filing.

A copy of MLA's initial rate filing in Illinois was dated September 2005, a copy of which was submitted with the 2006 data reporting submission. As mentioned in last year's submission, on March 10, 2006 Gayle Neuman of the IL Division of Insurance advised the Company that an actuarial report was not needed for this filing, but such support would be required for any future rate filings. Since no changes have occurred in the meantime, and none are anticipated in the near future, no actuarial backup is available at this time.

Questions 5 through 10 in the Company Defined Items exhibit reflect recent changes to the rate filing that have yet to be provided to the Illinois Department of Insurance.

ILLINOIS DEPARTMENT OF INSURANCE
MEDICAL MALPRACTICE REPORTING
COMPANY DEFINED ITEMS

1. For all reports requiring "by county" information, the company may group the data by policy issuing county or other method that is consistent with its ratemaking practices. The company must identify which method is used. The company must use a consistent method to group the data in all "by county" reports. Data grouped by territory is unacceptable. Describe any changes made to the way in which the data has been grouped during the past ten years and the impact of the change(s) on the reports.

   County location is based on policyholder location. To date, only exposures in Madison County have been written. There has been no change in this practice since the company began writing business in IL in 2005.

2. Describe any change(s) made to reserving or claim payment practices in the past ten years and the impact of the change(s) on the reports.

   Prior to 2004 management's reserving methodology was to set case estimates to ultimate value by the end of each calendar year, regardless of report date, which generally caused large fluctuations in fourth quarter operating results. To address this issue management implemented a change in 2004, wherein the objective is to set case estimates to ultimate value as soon as possible, but no later than nine (9) months from the claim report date. This will allow sufficient time for information gathering and evaluation that is expected to produce more reasonable and consistent reserve estimates.

   This change has had little impact on the company's historical data given its small volume of activity since inception of the company in 1996. As of December 2007 only 2 claims have been reported in Illinois.

3. Define closed claim (i.e. is a claim closed when it is assigned a closed date or when both indemnity plus expense reserves are $0, or in some other instance?). Describe any change(s) made to this definition in the past ten years and the impact of the change(s) on the reports.

   When a claim is assigned a closed date, both the indemnity and expense reserves are automatically reduced to $0 at that time, if necessary. There has been no change in this practice since the company was formed in 1996.

4. Explain/define the corporate policies written by the company.

   MLA will provide either a shared limit of liability or a separate limit for corporate entities formed by insured physicians. Corporate coverage is shared by hospital insureds.

5. Each company shall use the base class and territory that is consistent with its most recent rate filing. Please define your company's base class and territory. Describe any change(s) made to the base class and/or territory in the past ten years and the impact of the change(s) on the reports.

   Base class is 5 and territory is 1. There have been no changes made to the base class and territory since MLA started writing business in IL in 2005.

6. Describe any adjustment(s) made to exposures for extended reporting endorsements and the impact of the adjustments on the reports.

   Premium received from extended reporting endorsements are fully earned when written. These exposures are included in File 1 data along with the other claims-made exposures with an earned factor of 1 in the year this coverage was written.

7. For the maturity year and tail factors disclosure, list each tail factor with the corresponding maturity year if a different tail factor is used each maturity year. If another method is used, list and describe factors and method used.

   <u>Hospital tail factors</u>: Year 1 – 74%; Year 2 – 105%; Year 3 – 119%; Year 4 – 127%; Year 5 – 131% of mature claims made rate in effect at inception of last claims-made policy. Installment factor results in up to additional 5%.

   <u>Physician tail factors</u>: 2 to 6 times expiring annual premium using rates applicable as of the policy effective date.

8. Define what expenses are included in the expense factor.

   Refer to the 3 page excerpt from ISMIE rate filing in IL.

9. List and define individually any "other" factors used in the rate filing to establish rates. This could include but is not limited to the following: profit load, reinsurance load, investment income, schedule debits/credits, etc.

   Refer to the 3 page excerpt from ISMIE rate filing in IL.

10. Describe any methods and/or assumptions used in creating Reserve Study Exhibit A and why these assumptions are necessary.

    Data reported in Exhibit 2A Reserve Part 1 was obtained from the company's annual statement filings for each calendar year contained therein. Case reserves are developed as described under item 2 to this report. In 2005, 2006, and 2007 total claim reserves were positioned at the "high estimate" of needed reserves, as determined by the independent consulting actuary. These reserves are carried at their full estimated future value and have not been discounted.

11. Regarding Exhibits 1b and 1ci, the "amount" field lengths are 6 and 6, respectively. The Company's data is formatted as two implied decimal positions. For example, a value of 9 equals .09 or 9%. A value of 262 equals 2.62 or 262%.

ILLINOIS DEPARTMENT OF INSURANCE
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RECONCILIATION

Each company shall take steps to determine the data submitted under these requirements is accurate, reasonable, and appropriately reconciles to the most recently filed annual statutory financial statement. Describe the process used to reconcile the 1204 data, filed under this requirement, to the annual statutory financial statement. Please include the magnitude of any discrepancies, a description of the differences, and the reason(s) for the differences.

The undersigned, to the best of his knowledge, certifies that the information contained within this data call is accurate and reasonably reconciles, where applicable, to the most recently filed annual statutory financial statement and that there are no discrepancies to report.

Richard G. Anderson 12/17/08

Richard G. Anderson
Chief Financial Officer