***Exhibit 2b – Word/PDF Document***

***File Name:***
Exhibit2B_364159841.PDF

## RESERVES STUDY EXHIBIT 2B – WRITTEN RESPONSE TO THE QUESTIONS BELOW:

1. Provide a general description of the actuarial methodologies used to determine and monitor carried loss and loss adjustment expense reserves for the medical malpractice business written, including frequency of reviews.

*Please see attached Milliman, Inc. Illinois Medical Malpractice Data Call Memorandum, page 3,* ***General Description of Assessing Fortress' Loss Reserves.***

2. Discuss the adequacy of medical malpractice loss and loss adjustment expense 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 a 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.

*The Company's 2007 medical malpractice (dental professional liability) loss and loss adjustment expense reserves are adequate and reasonable as opined by the Company's external actuaries. The Company's 2007 reserves did not create an exceptional value in the One-Year Reserve Development to Surplus, Two-Year Reserve to Surplus and the Estimated Current Reserve Deficiency to Surplus IRIS tests.*

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 company and, if necessary, reasons why company trends are different from the industry.

*The Company's percentage change in direct written premiums has trended higher over the past several years as compared to similar dental carriers and the medical malpractice carriers, which participate in Physician Insurers Association of America ("PIAA").*

*The Company's direct written dental premiums grew to $19,900,000, an increase of 11.9% from 2006 and in line with projected growth. This 11.9% growth figure is comparable to the 2006 year and lower than the corresponding levels in 2005 (14.3%) and 2004 (41.4%). The 2007 growth is due to:*

- *New markets via established agents with dental books of business*
- *Growth in exposures in existing market*
- *State rate actions, including Texas <u>23.5% rate increase</u> in July 2006 and North Carolina <u>15.5% rate increase</u> in July 2007 partially offset by New York <u>6.3% rate decrease</u> in June 2007*

*The Company's key financial ratios as compared to similar dental carriers and the medical malpractice carriers, which participate in PIAA, have trended as follows:*

- ✓ *Combined Ratio (Loss Ratio + Expense Ratio) have trended higher than the medical malpractice industry, but has continued to improve since 2003.*

- ✓ *Net Loss & LAE Reserves to Surplus results have trended more favorably as compared to most companies participating in PIAA due to the Company's strong capitalization.*
- ✓ *Direct Written Premium to Surplus has never resulted in an exceptional value under the IRIS test and stood at 95% for year-end 2007.*
- ✓ *Risk Based Capital ("RBC") requirements promulgated by the NAIC and adopted by the Illinois Department of Financial and Professional Regulation, Division of Insurance require property and casualty insurers to maintain minimum capitalization levels that are determined based on formulas incorporating asset risk, credit risk, and underwriting risk. At December 31, 2007, the Company's adjusted surplus exceeds the minimum RBC capitalization requirements. The Company's 2007 RBC ratio stood at 2,533%.*

*The following steps have been taken by the Company to ensure continued improvement with the Company's key financial ratios (i.e. combined ratio, leverage ratio, reserve development):*

- ✓ *In early 2006, improvements were made in the staffing levels of the claims department. The claims department created new litigation management guidelines for both the claims staff and outside defense counsel. Adequate staffing and litigation management changes have resulted in claims closing in a shorter period of time, therefore mitigating defense cost expenditures. In late 2007, the claims department created two Claims Technician positions. These individuals are responsible for fielding incoming calls and initial claims set-up. The staffing enhancements support the claim analysts' efforts in closing claims in shorter period of time, thereby mitigating defense cost expenditures.*

- ✓ *In late 2005, the Company formed a Committee whose purpose is to review newly reported claims and determine any liability exists on the part of our insured. This meeting takes place monthly. A consultant, who is a lawyer and a dentist, reviews pertinent information, including dental records if they are available. This Committee is effective is assisting staff in making early assessments of claims which result in more timely resolutions.*

- ✓ *The Company continues to re-underwrite all existing groups. This includes obtaining a completed Organization Application and any applicable supplemental information determined necessary by the underwriter. This comprehensive review includes, in many cases a personal visit to the organization' headquarters for a face to face meeting with those in charge. This same process takes place for any new business interests. Groups are carefully scrutinized, and the company decides on a case by case basis whether or not to offer renewal terms or accept as new business. The size of the group is considered, however the significance of the exposure itself is a mitigating factor in the decision making process.*

- ✓ *The Underwriting process has been strengthened through the introduction of a revised individual application and the introduction of an Organization application, which is suitable for underwriting groups of various sizes. The information collected provides underwriters with sufficient information to make sound underwriting decisions. Revisions made to the Underwriting Guidelines in 2005-06 contribute to consistent decisions reflective to dental exposures*

- ✓ *The Company's expense ratio was 39.6% and 36.5% in 2007 and 2006, respectively. The expense ratio increase of 3.1% was driven by:*
    - *an increase in costs allocated from the parent company, OMS National Insurance Company ("OMSNIC"), including higher rent expenditures*
    - *greater number of Company employees*
    - *expansion of our business; however, the Company is seeing a tapering in expense levels, from the efficiencies the Company is experiencing from the 2005 system conversion*

- *catch-up adjustment on the Company's 3rd party reinsurance ceded written premium (added approximately 1.0 point)*

*Variable expenses represent approximately 41.0% of the expense ratio and are comprised of commissions, premium taxes and IT service agreement.*

*The Company expects further improvement in its expense ratio due to both continued expense management and revenue increase through rate actions and increased exposure count.*

**SURPLUS STUDY EXHIBIT 2B – WRITTEN RESPONSE TO THE QUESTIONS BELOW:**

1. Provide a general discussion regarding the adequacy of surplus reported on Annual Statement, page 3 (Liabilities, Surplus and Other Funds), line 35, Surplus as regards policyholders, as of the last year-end.

*The Company's surplus is adequate and has maintained both an acceptable net written premium to surplus ratio and liabilities to surplus ratio. The net written premium to surplus ratio has ranged from 9%, starting in 2002 to 14%, as of year-end 2007. This ratio is well within the acceptable NAIC IRIS ratio range. Also, the Company's liabilities to surplus ratio has trended from 5%, starting in 2002 to 27%, as of year-end 2007*

*Total surplus stood at $20,915,000 at year-end 2007, an increase of 36% from year-end 2006. Significant increases to surplus included $5 million capital contribution from OMSNIC, $569,000 in net income and $25,000 from the change in net deferred income tax.*

*The above ratios, although favorable, have trended upward due to the continued expansion of the Company offering professional liability coverage to the general dental and dental specialty fields.*

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 on 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.

*In years 2002 and 2003, the Company received capital contributions from the parent company, OMS National Insurance Company of $3.3 million and $4.2 million, respectively. In 2007, the parent company contributed $5.0 million. The above contributions have supported the Company's growth as it continues to expand its dental professional liability program in both existing and new markets.*

**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.

*Where applicable, the data is grouped by county.*

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.

*There have been no changes in reserving or claims practices in the past ten years other than adjustments to reflect the Company's experience in the various locales where it writes business*.

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.

*A claim is considered closed when it is assigned a closing date. Reserves are automatically zeroed out.*

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

*Fortress provides its dentist insureds with the ability to purchase a separate policy (with separate limits of liability) for their professional corporations, associations or partnerships. The following criteria are applied to corporate policies written by the company:*

- *A minimum of 75% of the underlying dentists must be insured with Fortress and maintain limits at least equal to the organization.*
- *Dentists not insured with Fortress must demonstrate continuous insurance and maintain limits of liability at least equal to the organization.*
- *All dentists who maintain an ownership interest in the organization must be insured with Fortress.*

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.

*Please see attached Milliman, Inc. Illinois Medical Malpractice Data Call Memorandum, page 2, **Other Factors Used in Rate Development Table.** The initial Illinois class/territory definitions plans have never changed in Illinois.*

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

*No adjustments made.*

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 for each maturity year. If another method is used, list and describe factors and method used. **–**

*Please see attached Milliman, Inc. Illinois Medical Malpractice Data Call Memorandum, page 2, **Maturity Year & Tail Factors Table.***

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

*Please see attached Milliman, Inc. Illinois Medical Malpractice Data Call Memorandum, page 3, **Other Factors Used in Rate Development Table.** The expense factor includes:*

- *General Expense – 16.0% average*
- *Other Acquisition Expense – 12.0% average*

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.

*Please see attached Milliman, Inc. Illinois Medical Malpractice Data Call Memorandum, page 3,* ***Other Factors Used in Rate Development Table.***

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

*For Exhibit 2A Reserves, the amounts were truncated to omit thousands to accommodate the field length restrictions of the Illinois Medical Malpractice Data Call specifications. Therefore, amounts for years 2000 to 2002 may not display a number, since under $1,000.*

*For Exhibit 2A Reserves, the Policy Type Code for:*

- ✓ *Claims-Made is CM rather than CMPA*
- ✓ *Occurrence is OE rather than OERE*

*to accommodate the Illinois Medical Malpractice Data Call specifications of a two-digit field.*

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March 12, 2008

Ms. Sherry Richard
Vice President - Finance
Fortress Insurance Company
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**RE: ILLINOIS MEDICAL MALPRACTICE DATA CALL**

Dear Sherry:

Fortress Insurance Company (Fortress) has requested assistance from Milliman, Inc. (Milliman) in responding to the medical malpractice data call issued by the Illinois Department of Insurance. Specifically, we have been asked to provide the following information:

- Maturity year and tail factors in the most recent Illinois rate filing;

- Other factors used in the rate development, including:

  - Contingency load;
  - Death, Disability and Retirement (DDR) provision;
  - Commission expenses;
  - General expenses;
  - Other acquisition expenses;
  - Taxes, licenses and fees;
  - Impact of class/territory changes (i.e., off-balance factor);
  - Profit load;
  - Reinsurance load;
  - Investment income provision;
  - Schedule credits/debits; and
  - Other factors.

In addition to specifying the factors outlined above, we have also been asked to provide a general description of the actuarial methodologies we use to monitor and assess Fortress' loss and loss adjustment expense reserves. Finally, we have allocated our December 31, 2007 countrywide ultimate loss and ALAE estimates to a state-specific level and have summarized those results for Illinois.

***Background on Fortress' Illinois Rates***

At the outset of our response for the requested information, a few items should be noted. First, when Fortress initially entered the Illinois dental professional liability market, it is our understanding that its rates were developed by management after reviewing the rates of the main writers of the business at the time. Second, Fortress' initial rates, which were effective in 2000, are still in effect.

With that as background, in order to provide the requested information, for certain of the factors we have referenced several of our recent rate analyses in other states, that we believe represents a reasonable proxy for the Illinois-specific information, which does not explicitly exist since Fortress' initial, and still current, rates were developed based on an overall assessment of the market rates and not developed from the "ground-up" using the various factors requested by the Department. The remainder of this letter provides the requested information, along with certain explanatory comments where necessary.

***Maturity Year and Tail Factors***

The following table provides Fortress' maturity year (also referred to as claims-made step factors) and tail (also referred to as reporting endorsement) factors, expressed as a function of the mature claims-made rate:

| Coverage Year | Maturity Year Factor | Tail Factor |
|---|---|---|
| 1st | 0.32 | 0.69 |
| 2nd | 0.61 | 1.06 |
| 3rd | 0.79 | 1.22 |
| 4th | 0.88 | 1.29 |
| Mature | 1.00 | 1.31 |
| Occurrence | 1.11 | N/A |

***Other Factors Used in Rate Development***

The following table provides a summary of the other factors that we typically include in our rate development for Fortress in other states. As mentioned earlier, given the basis for the initial rate filing of Fortress in Illinois, these factors do not explicitly exist within Fortress' Illinois rate filing, but we believe are representative of how we would view an Illinois-specific rate analysis.

| Factor | Provision | Comment |
|---|---|---|
| Contingency Load | 0.0% | Function of premium |
| DDR Load | 3.5% | Function of loss and ALAE[1] |
| Commission Expense | 10.0% to 12.0% | Function of premium, can vary with agent-specific agreement |
| General Expense | 15.0% to 17.0% | Function of premium |
| Other Acquisition Expense | 11.0% to 13.0% | Function of premium |
| Taxes, Licenses and Fees | 2.0% to 3.5% | Function of premium, varies with state premium tax rate |
| Class Territory Offset[2] | N/A | Initial Illinois class/territory definitions maintained; thus, no offset calculated |
| Profit Load | (1.0)% to (3.5)% | Function of premium |
| Reinsurance Load | N/A | Fortress' rate development does not include a reinsurance load |
| Investment Income Provision | 12.5% | Function of premium, includes investment income on reserves and allocated surplus |
| Schedule Credit/Debit | 6.0% to 9.0% | Average credit, function of premium |
| Other - ULAE[3] | 7.5% | Function of loss and ALAE |

1 ALAE refers to allocated loss adjustment expenses.

2 Fortress' class plan definitions are:

Class I: General Dentistry

Class II: Includes dentistry on patients who have been treated by conscious sedation (not in hospital or state-licensed and regulated surgical center)

Fortress' territory plan definitions are:

Territory I: Cook County

Territory II: Remainder of State

Please note that Fortress' class and territory plans have never changed in Illinois.

3 ULAE refers to unallocated loss adjustment expenses.

***General Description of Assessing Fortress' Loss Reserves***

As part of our reserve work for Fortress, we review the Company's claims experience as of October 31st and provide estimates of ultimate loss and ALAE (and the corresponding unpaid loss and ALAE) by year, separately for the claims-made, occurrence and tail business written. For credibility purposes, the analysis is conducted on a countrywide basis and designed to produce both gross and net of reinsurance estimates. The underlying actuarial projection methodologies included are:

- Incurred loss development method;
- Paid loss development method;
- Frequency/severity method;

- Hindsight outstanding method; and
- Bornhuetter-Ferguson method.

The results of our October 31st analysis are then used in conjunction with the actual year-end data in order to assess Fortress' year-end carried loss and loss adjustment expense reserves. Finally, in order to monitor the Company's loss reserves between December 31st and October 31st, we also provide Fortress with loss development "benchmarks" in order to compare the emerging experience to that implicit in our year-end loss reserve estimates.

***Illinois-Specific Ultimate Loss and ALAE***

The final item we were asked to provide was to develop Illinois-specific ultimate loss and ALAE by referencing our year-end 2007 countrywide reserve analysis. In doing so, we have allocated our indicated countrywide incurred but not reported reserves using the year-end case reserves by state. We did this separately for both loss and ALAE. The following table summarizes the results of this process for the state of Illinois:

| Summary of Illinois Premium and Claims Experience as of December 31, 2007 | | | | | | |
|---|---|---|---|---|---|---|
| **Report Year** | **Direct Earned Premium** | **Paid Loss & ALAE** | **Case Reserve Loss & ALAE** | **Incurred Loss & ALAE** | **Ultimate Loss & ALAE** | **Unpaid Loss & ALAE** |
| 2004 | $223,000 | $70,446 | $0 | $70,446 | $70,446 | $0 |
| 2005 | 353,000 | 20,486 | 41,499 | 61,985 | 115,699 | 95,213 |
| 2006 | 408,000 | 50,731 | 43,152 | 93,883 | 142,452 | 91,720 |
| 2007 | 532,214 | 1,633 | 116,367 | 118,00 | 595,616 | 593,983 |
| **Total** | **$1,516,214** | **$143,297** | **$201,018** | **$344,314** | **$924,213** | **$780,916** |

***Other Considerations***

Sherry, several final points should be made. First, any study of rate level requirements involves estimates of future contingencies. A coverage such as medical malpractice with its volatile swings in frequency and severity patterns is especially difficult to estimate. While our indications represent our best professional judgment, arrived at after careful actuarial analysis of the available data, it is important to note that a significant degree of variation from the projected underwriting results is not only possible, but in fact, probable. While the degree of such variation cannot be quantified, it could be in either direction from our estimates.

Second, we have relied on information prepared by Fortress without audit or independent verification. If the data or information provided to us is inaccurate or incomplete, our analysis may likewise be inaccurate or incomplete.

We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

Finally, this report has been prepared for the use of and is only to be relied upon by the management of Fortress. No portion of this report may be provided to any other party without Milliman's prior written consent. In the event such consent is provided, the report must be provided in its entirety. This report may not be filed with the SEC or other securities regulatory bodies. We understand that Fortress may provide this letter to the Illinois Department of Insurance in support of its response to the Department's data call. We consent to such distribution so long as the letter is provided in its entirety.

Sincerely,

Chad Karls

Chad C. Karls, F.C.A.S., M.A.A.A.
Consulting Actuary

Kevin J Atinsky

Kevin J. Atinsky, F.C.A.S., M.A.A.A.
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