

## **Exhibit 2B Reserve Study**

1. The Company's Loss and Loss Adjustment Expense reserves are evaluated twice annually, at June 30 and December 31, by the Company's external consulting actuary, Milliman, Inc. Brookfield, Wisconsin. Actuarial methodologies employed include:
  - a. For Loss reserves:
    - i. Paid loss development method;
    - ii. Incurred loss development method;
    - iii. Frequency /Severity projection;
    - iv. Pure premium projection method;
    - v. Incurred loss Bornhuetter-Ferguson method; and
    - vi. Average hindsight outstanding loss projection method.
  - b. For Allocated Loss Adjustment Expense reserves:
    - i. Paid ALAE development method;
    - ii. Paid ALAE to paid loss development method;
    - iii. Frequency/Severity projection;
    - iv. Paid ALAE Bornhuetter-Ferguson method;
    - v. Ultimate ALAE to ultimate loss ratio;
    - vi. ALAE pure premium projection method; and
    - vii. Average hindsight outstanding ALAE projection method.
  - c. For Unallocated Loss Adjustment Expense: the historical ratio of paid unallocated loss adjustment expense to gross paid loss and allocated loss adjustment expense is used to develop a selected percentage to calculate a provision for unallocated loss adjustment expense reserves.

Additionally management monitors case reserves weekly, monthly and quarterly using a number of internal management reports designed for that purpose.

2. The Company's loss and loss adjustment expense reserves, net of reinsurance were approximately 111% of the point estimate developed by Milliman, Inc. as of December 31, 2008. Likewise the company's reserves were approximately 11% above the midpoint of the range developed by the Company's independent auditors, Ernst & Young, LLP. This position reflects reserve figures that were fairly consistent with the figures as of December 31, 2007.

Calendar year loss and lae development was favorable across all categories of business. However it should be noted that the Company's business is dominated by its chiropractic medical malpractice business, which accounted for 88% of the total of direct written and assumed business in 2008. The Company's chiropractic book has historically developed favorably.

There have been no changes in the Company's reserving philosophy or methodology. Milliman has been the Company's appointed actuary since 1998.

3. During the latter half of the 1990's the Company's favorable reserve development paralleled that of the medical malpractice industry as significant redundancies

developed and were taken into income. That said, the Company did not engage in the fierce pricing competition that was apparent in the mainstream medical malpractice marketplace, nor did it allow top line growth to drive its strategies. Additionally, as stated earlier, the behavior of the Company's chiropractic book of business is different than mainstream medical malpractice due to several reasons, including the non-invasive, non-prescriptive nature of the modality and the typically longer term, more personal relationship between patient and practitioner. During the period leading up to the most recent crisis, during the crisis and continuing into the current period, the frequency of chiropractic claims has declined. Although severity did increase, the overall magnitude and the rate of increase are less than mainstream medical malpractice. Thus the Company did not experience the extreme combined ratios that plagued many of the medical doctor and hospital insurers.

### **Exhibit 2B Surplus Study**

1. With \$135 million in policyholders surplus at December 31, 2008, NCMIC is by any of the accepted measures, RBC, 542% of Authorized Control Level RBC (similar result from AM Best's BCAR); and Premium to Surplus ratio, .61 : 1, more than adequately capitalized, perhaps over capitalized. It should also be noted that as indicated in the Reserve section of this inquiry that reserves for loss and loss adjustment expenses are 11% in excess of the point estimate provided by the Company's appointed actuary, providing another measure of security. With regard to policyholder surplus, one should be aware that over the five-year period 2004 – 2008 the Company redeployed \$62 million of capital through shareholder dividends to support and grow other enterprises in the NCMIC Group of Companies. In this fashion NCMIC is able to support policyholders' professional practices with financial services beyond the singular provision of medical malpractice insurance
2. During the past 5 years, absent the shareholder dividends mentioned in 1. above, policyholder surplus would have increased by each year's net income after tax as there were no other material adjustments to surplus. It should also be noted that during this same 5-year period NCMIC returned approximately \$32 million to policyholders through its policyholder dividend program. Obviously had there been a need for additional surplus such policyholder and shareholder dividends could have been eliminated.

Thus other than direct and indirect benefits to policyholders, the trend in surplus has been positive. Inclusive of these benefits to policyholders, surplus grew from \$131.1 million at December 31, 2004 to \$135 million at the end of 2008, a growth of 3%.

## **Company Defined Items**

### **IT – alteration of published file formats**

In the document <http://www.ilga.gov/commission/jcar/admincode/050/05004203ZZ9996BR.html>

Record layout for File 2 - Exhibit 2a Reserves has Policy Type (Code) as Start 20, End 21, and Length 2

As defined earlier in your document, this data is actually 4 characters:

#### **POLICY TYPE**

**CMPA** = Claims Made Including Prior Acts

**OERE** = Occurrence Including Extended Reporting Endorsements

The layouts for File 1 - Exhibit 1 define the field correctly.

==> In past years, we were told to use all four characters and shift the remaining fields over two positions. This year the web documentation is still incorrect, so we will again use the altered layout unless we are told differently. Two characters would make the field unique, but it would be inconsistent with the definition earlier in the document. I thought I should point this out to make sure our data is interpreted correctly.