



**DEPARTMENT OF INSURANCE, FINANCIAL  
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690

**ORDER**

After full consideration and review of the report of the financial examination of Gateway Insurance Company for the period ended December 31, 2015, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo, adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, company history, management and control, territory and plan of operation, reinsurance, accounts and records, statutory deposits, financial statements, analysis of examination changes in surplus, comments on financial statements, subsequent events and summary of recommendations.

Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Gateway Insurance Company as of December 31, 2015 be and is hereby ADOPTED as filed and for Gateway Insurance Company to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement and verify compliance with each item mentioned in the Comments on Financial Statements and/or Summary of Recommendations section of such report; and (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 17<sup>th</sup> day of May, 2017.



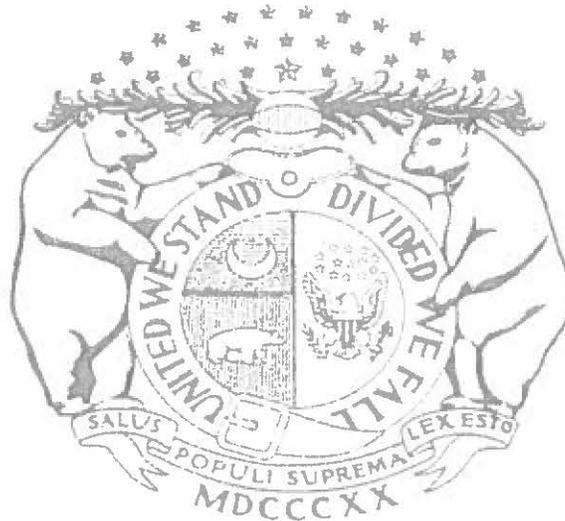
  
Chlora Lindley-Myers, Director  
Department of Insurance, Financial Institutions  
and Professional Registration

REPORT OF  
FINANCIAL EXAMINATION

# Gateway Insurance Company

As of:  
DECEMBER 31, 2015

**FILED**  
MAY 22 2017  
DIRECTOR OF INSURANCE,  
FINANCIAL INSTITUTIONS &  
PROFESSIONAL REGISTRATION



STATE OF MISSOURI  
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS  
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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March 15, 2017  
St. Louis, MO

Honorable Chlora Lindley-Myers, Acting Director  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Acting Director Lindley-Myers:

In accordance with your financial examination warrant, a comprehensive financial examination has been made of the records, affairs and financial condition of

**Gateway Insurance Company**

hereinafter referred to as such or as the "Company" or "Gateway". The Company's office is located at 150 Northwest Point Blvd, 3<sup>rd</sup> Floor; Elk Grove Village, IL 60007; telephone number (847) 472-6700. Examination fieldwork began on May 23, 2016 and concluded on the above date.

**SCOPE OF EXAMINATION**

Period Covered

The last comprehensive financial examination of the Company was performed as of December 31, 2011, by examiners from the State of Missouri.

The current financial examination of the Company covers the period from January 1, 2012 through December 31, 2015, and was conducted by examiners from the State of Missouri in coordination with an examination conducted by the State of Illinois. Illinois was the lead state for these examinations. The examination also evaluated material transactions or events occurring subsequent to December 31, 2015.

Procedures

This examination was conducted as a full scope comprehensive examination. We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating systems

controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with statutory accounting principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. Any adjustments identified during the examination are documented separately following the Company's financial statements. Identified Key Functional Activities of the Company were: Financial Reporting; Investments; Treasury; Underwriting; Premium Billing and Collections; Reinsurance; Claims; and Reserves. The examination was conducted in a manner consistent with procedures followed by our own examiners. Those procedures were appropriate for this examination.

## **SUMMARY OF SIGNIFICANT FINDINGS**

The Company's combined loss and LAE reserves as of December 31, 2015 were deficient by the amount of \$6.0 million. This reduces the Company's surplus of \$18.8 million by almost one-third.

## **COMPANY HISTORY**

### **General**

Gateway Insurance Company was originally formed as a mutual company on August 28, 1946 under the name Group Casualty Underwriters. In 1955, the Laclede Cab Company obtained management control over the Company for the purpose of providing a permanent insurance vehicle for its taxi services and changed the name of the Company to Group Underwriters Mutual Insurance Company.

The Company was converted from a mutual to a stock company in 1986 and merged with and into Group Casualty Underwriters Insurance Company. The current name of Gateway Insurance Company was adopted in 1991. In 2001, an affiliated reciprocal, Camelot Insurance Underwriters (the Missouri domestic company formerly known as Casualty Indemnity Exchange) was merged with and into Gateway. At that time, Gateway was solely owned by a holding company, Camelot Services, Inc. On December 1, 2005, Hendricks Holding Company, Inc. (Hendricks) acquired all of the outstanding common stock of Camelot Services, Inc.

Effective January 2, 2013, Atlas Financial Holdings, Inc. (Atlas), a Cayman Islands corporation, purchased Camelot Services, Inc. and Gateway from Hendricks. On

November 20, 2014, Camelot was merged with and into a subsidiary of Atlas, American Insurance Acquisition, Inc. (AIA) and Gateway became a direct subsidiary of AIA.

### Capital Stock

The Company has 50,000 shares of \$100 par value common stock authorized with 38,150 shares issued and outstanding. All shares are owned by AIA. At December 31, 2015, common capital stock was \$3,815,000.

Gross paid in and contributed surplus totaled \$7,434,572 at December 31, 2015.

### Dividends

The Company declared and paid dividends to stockholders as follows:

<u>Year</u>	<u>Amount</u>
2012	6,000,000*
2013	0
2014	0
2015	0
Total	<u>\$ 6,000,000</u>

\*Dividend was paid to former parent in conjunction with acquisition of Gateway by American Insurance Acquisition, Inc.

### Acquisitions, Mergers, and Major Corporate Events

The Company's acquisition by Atlas was described above. As part of the sale to Atlas, a \$6 million extraordinary dividend was paid to Hendricks by Gateway. The stock purchase agreement between Atlas and Hendricks contains terms that protect Gateway from any additional adverse development on losses booked by Gateway at the effective date of the purchase. This protection is structured such that the ultimate final payment to Hendricks will be adjusted for any development on the book between the effective date and the final payment date, anticipated to be on or around January 1, 2017, or at a sooner date as negotiated between the parties. In conjunction with the sale, Gateway had placed both its long-haul trucking program and workers compensation business in runoff.

Also pursuant to this agreement, all of the outstanding business related to workers compensation and employer's liability policies were reinsured under a 100% quota share reinsurance agreement with White Rock (SAC) Ltd, (White Rock), a Bermuda-based segregated accounts reinsurer contracted by Hendricks and subsidiary of AON. This agreement includes loss reserves and in-force unearned premium reserves as of December 31, 2012. A loss portfolio transfer of those reserves was completed in January 2013.

At the time of the Atlas purchase, Atlas' subsidiary, American Insurance Acquisition, Inc., also owned two other insurers, American Service Insurance Company, Inc. (ASIC) and American Country Insurance Company (ACIC). Gateway joined their intercompany

pooling as a 20% participant January 1, 2013. Pursuant to the agreement, Gateway will cede its net loss and LAE liabilities outstanding (less the WC and Trucking books, already ceded or indemnified under other agreements) to the pool leader ASIC, and will in turn receive a retrocession of 30% of the premiums and liabilities pooled by Gateway, ASIC and ACIC. The retrocession percentage for Gateway was lowered to 20% effective January 1, 2013.

On November 20, 2014, Camelot was merged with and into AIA and Gateway became a direct subsidiary of AIA. Atlas is the ultimate parent of AIA and is listed on the NASDAQ Stock Exchange under the symbol "AFH".

## MANAGEMENT AND CONTROL

### Board of Directors

The board of directors consists of nine members duly elected at an annual meeting of the stockholders. The directors serving as of December 31, 2015, were:

<u>Name and Location</u>	<u>Primary Occupation</u>
Scott D. Wollney Glenview, IL	President, CEO Atlas Financial Holdings, Inc.
Paul A. Romano St. Charles, IL	Vice President, CFO, Treasurer Atlas Financial Holdings, Inc.
Leslie P. DiMaggio Fox River Grove, IL	Secretary, VP Operations Atlas Financial Holdings, Inc.
Daniel J. Boxell O'Fallon, MO	Director Gateway Insurance Company
Bruce W. Giles Chicago, IL	VP Product Development & Underwriting Atlas Financial Holdings, Inc.
Zenovia D. Love Hazel Crest, IL	Director Gateway Insurance Company
Joseph R. Shugrue Wilmette, IL	VP, Claims Atlas Financial Holdings, Inc.
Serena M. Lintker Edwardsville, IL	Director Gateway Insurance Company
Lyn D. Ward St. Ann, MO	VP Compliance/Administration Atlas Financial Holdings, Inc.

## Officers

The officers elected and serving as of December 31, 2015, were:

<u>Name</u>	<u>Office</u>
Scott D. Wollney	President, CEO
Paul A. Romano	Vice President, CFO, Treasurer
Leslie P. DiMaggio	Secretary, VP Operations
Joseph R. Shugrue	VP Claims
Bruce W. Giles	VP Product Development & Underwriting

## Committees

The Company's board of directors has designated the Audit Committee of Atlas Financial Holdings, Inc. to serve as the Company's Audit Committee. In addition, the board of directors selected Bruce W. Giles, Joseph R. Shugrue, and Paul A. Romano to serve on the Reinsurance Committee. The Investment Committee was comprised of Scott D. Wollney and Paul Romano.

## Corporate Documents

A review was made of the articles of incorporation and bylaws of the Company. No changes were made to these documents during the examination period.

## Meeting Minutes

The minutes of the meetings of the stockholder and board of directors were reviewed for the period under examination. Those minutes provided sufficient documentation of major corporate transactions.

## Conflict of Interest

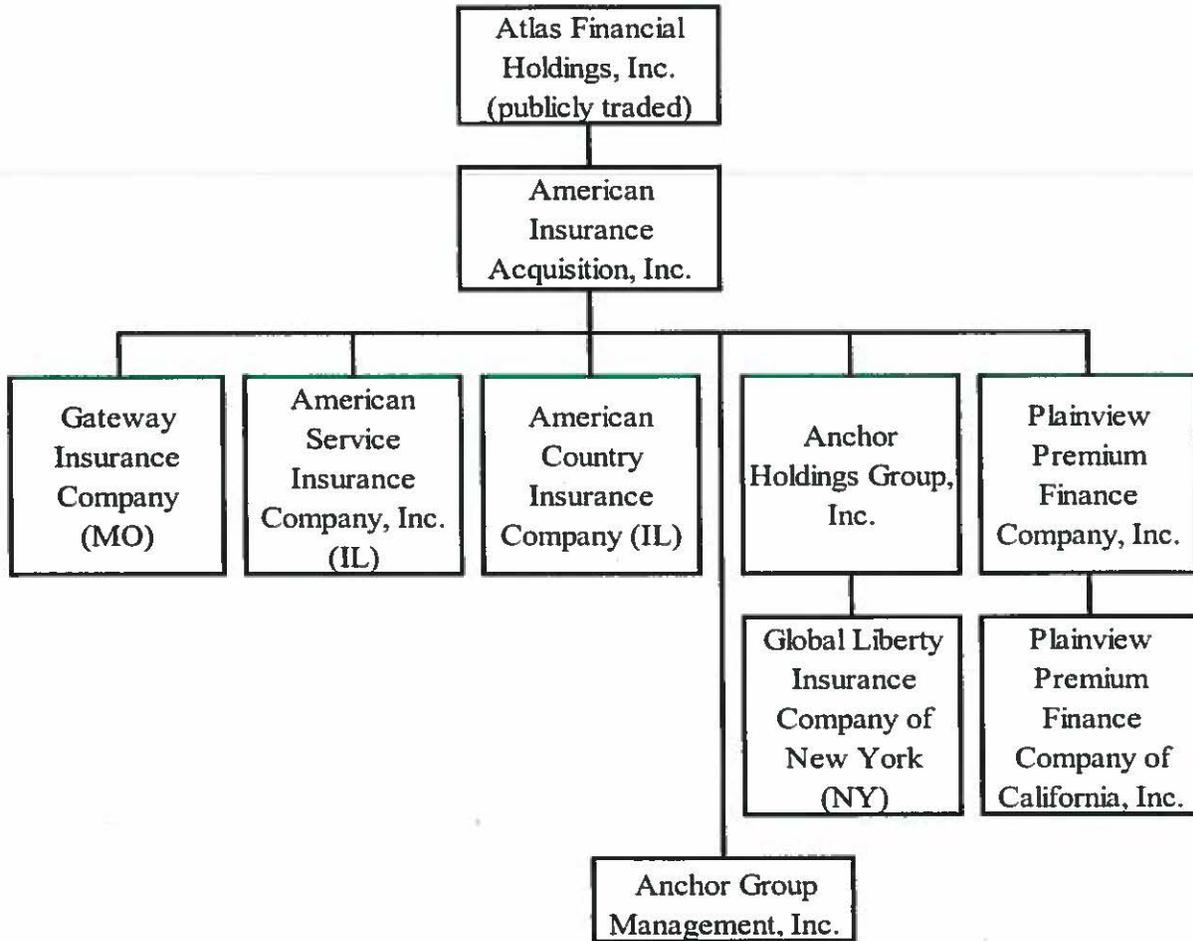
Conflict of interest certifications were made by the staff of the Company. Those disclosures revealed no conflict of interest situations.

## Holding Company, Subsidiaries and Affiliates

The Company is a member of an insurance holding company system as defined in Section 382.010 RSMo, (Definitions). Annual registration statements were filed as required by Section 382.100 RSMo, (Registration). The Company is a wholly owned subsidiary of American Insurance Acquisition, Inc., which is a wholly owned subsidiary of Atlas Financial Holdings, Inc., a publicly traded company.

Organizational Chart

This chart shows the ownership structure of the Company as of December 31, 2015. All entities are 100% owned by their immediate parent.



Intercompany Transactions

The Company is a party to the following agreements, all of which have been approved by the Missouri Department of Insurance, Financial Institutions and Professional Registration.

**Tax Sharing Agreement**

Parties: Gateway, Atlas Financial Holdings, Inc., and other eligible subsidiaries of Atlas.

Effective: Agreement effective as of January 1, 2013.

**Terms:** Atlas files a consolidated tax return for each taxable period in which this agreement is in effect and for which the affiliated group is required to file such a return. The consolidated tax liability for each year is apportioned among the participating entities in accordance with the ratio which that portion of the consolidated taxable income attributable to each member having taxable income bears to the consolidated taxable income.

### **Reinsurance Pooling Agreement**

**Parties:** Gateway, ASIC and ACIC

**Effective:** Agreement effective January 1, 2013.

**Terms:** Gateway will cede its net loss and LAE liabilities outstanding as of December 31, 2012 (net of reinsurance to outside parties) to ASIC as the pool leader. ASIC will in turn pool its net losses and LAE with those assumed from Gateway and ACIC, and will then retrocede these losses to Gateway, ACIC and itself based on the following percentages:

ASIC	50%
ACIC	30%
Gateway	20%

Within 30 days after the end of any calendar quarter, ASIC will provide to the participating companies a quarterly statement of premiums, expenses, losses and LAE paid and salvages received during the calendar quarter, losses and LAE outstanding at the end of the quarter, and such other information as may be necessary for the Companies to complete their financial statements. Based on the quarterly statement provided by ASIC, the participating Companies shall settle their accounts and pay any balances due within 30 days of the receipt of said quarterly statement.

### **Service Agreement**

**Parties:** Gateway, Camelot, American Insurance Acquisition, Inc., ASIC and ACIC

**Effective:** Agreement effective January 1, 2013.

**Terms:** American Insurance Acquisition, Inc. provides a number of management services to the subsidiaries necessary for their respective operations. These management services include: executive officers and employees to serve as corporate officers and/or directors;

accounting, reporting, and treasury management services; human resource services; marketing services; planning and budgeting services; legal services; internal audit services; and information technology services.

The Agreement is subject to renegotiation at the end of the third anniversary of the initial effective date of December 31, 2010 and every three years thereafter. The Agreement shall continue until terminated, with notice of termination by any party required to be not less than 60 days in advance of such termination.

Rate(s): Subsidiaries pay AIAI a fee for services provided, which is calculated at cost and does not include any amount for profit or overhead and does not exceed fair value of the services provided. Reports are furnished by AIAI on a monthly basis and all amounts due must be paid within 15 days of receipt of the report.

### TERRITORY AND PLAN OF OPERATION

The Company is licensed by the Missouri Department of Insurance, Financial Institutions and Professional Registration under section 379.010(1) RSMo to write Property, Liability, Fidelity and Surety, and Miscellaneous lines. The Company focuses on providing coverage to the operators of taxis, limousines, and paratransit vehicles. Gateway is licensed in the District of Columbia and all but four states. Independent agents and brokers produce business for the Company.

### REINSURANCE

#### General

The Company's premium income on a direct written, assumed and ceded basis for the current examination period was as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Direct Business	\$24,970,860	\$12,118,422	\$17,475,935	\$49,224,951
Reinsurance Assumed	308,177	23,134,905	28,118,848	28,223,462
Reinsurance Ceded	(5,199,437)	(22,122,485)	(17,310,530)	(49,261,209)
Net Premiums	<u>\$20,079,600</u>	<u>\$13,130,842</u>	<u>\$22,284,253</u>	<u>\$28,187,204</u>

#### Assumed

All assumed reinsurance is either through the Intercompany Pooling Agreement or through reinsurance pools. Gateway Insurance Company was included on the intercompany agreement effective January 1, 2013.

Ceded

Effective July 1, 2014, the Company is covered under a Quota Share Agreement with Swiss Re for all Commercial Automobile Liability and Physical Damage business, as well as all General Liability business. The Company's original participation rate of 5% was increased to a 15% cession rate effective April 1, 2015.

Effective July 1, 2013, the Company is covered under an Excess of Loss Treaty with General Reinsurance Corporation for Automobile and General Liability business. Gateway's retention is \$500,000 each occurrence for the first layer of coverage and \$1,000,000 each occurrence for the second layer of coverage.

A 100% Quota Share Agreement was entered into with White Rock Insurance, Ltd. covering all workers' compensation losses prior to the January 1, 2013 effective date of the agreement. This treaty remains in effect until all liabilities under the contract are satisfied.

**ACCOUNTS AND RECORDS**

Independent Auditor

The Company's financial statements were audited, for the period covered by this examination, by BDO USA, LLP.

Company Actuary

The actuarial opinions, for the period under examination, were prepared by the Company's appointed actuary, Charles C. Emma from EVP Advisors, Inc.

**STATUTORY DEPOSITS**

Deposits with the State of Missouri

The funds on deposit with the DIFP as of December 31, 2015, as reflected below, were sufficient in statement value and market value to meet the deposit requirement for the State of Missouri in accordance with Section 379.098 RSMo. (Securities to be deposited by all companies, kind and amount).

<u>Type of Security</u>	<u>Statement Value</u>	<u>Market Value</u>
US Treasury Note	\$2,757,574	\$2,874,411

### Deposits with Other States

The Company also has funds on deposit with other states to satisfy their statutory deposit requirements. Those funds on deposit as of December 31, 2015 were as follows:

<u>State</u>	<u>Type of Security</u>	<u>Statement Value</u>	<u>Market Value</u>
Arizona	US Treasury Note	\$599,043	\$626,402
Delaware	Huntsville, AL Bond	110,000	114,947
Georgia	US Treasury Note	86,776	89,672
Nevada	Saint Paul, MN Bond	303,933	310,823
New Mexico	US Treasury Note	348,744	372,367
North Carolina	US Treasury Note	311,840	312,598
South Carolina	Johnson & Johnson Bond	205,558	218,701
Virginia	US Treasury Note	225,034	225,791
		<u>\$2,190,928</u>	<u>\$2,271,301</u>

### **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the statutory financial statements filed by the Company as of December 31, 2015. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments on Financial Statements," which follow the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

**ASSETS**  
**As of December 31, 2015**

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 27,498,140	\$ 0	\$ 27,498,140
Cash and short-term investments	3,669,104	0	3,669,104
Other invested assets	205,389	0	205,389
Investment income due and accrued	168,484	0	168,484
Uncollected premiums and agents' balances in the course of collection	3,789,328	0	3,789,328
Deferred premiums	25,033,713	0	25,033,713
Amounts recoverable from reinsurers	1,798,106	0	1,798,106
Current federal income tax recoverable	50,396	0	50,396
Net deferred tax asset	4,135,817	1,985,241	2,150,576
Guaranty funds receivable or on deposit	2,052	0	2,052
Receivables from parent and affiliates	156	0	156
Receivable from pools	26,358	0	26,358
State income tax receivable	6,200	0	6,200
Prepaid expenses	208,857	208,857	0
Other assets - security deposit	84,837	84,837	0
Other receivables	3,446	3,446	0
<b>Total assets</b>	<b><u>\$ 66,680,383</u></b>	<b><u>\$ 2,282,381</u></b>	<b><u>\$ 64,398,002</u></b>

## LIABILITIES, CAPITAL AND SURPLUS

As of December 31, 2015

Losses	\$12,108,868
Reinsurance payable	1,511,841
Loss adjustment expenses	3,994,893
Commissions payable	2,983,177
Other expenses	576,235
Taxes, licenses and fees	375,223
Unearned premiums	14,115,793
Ceded reinsurance premiums payable	9,748,265
Funds held under reinsurance treaties	800,000
Amounts withheld for account of others	84,455
Remittances and items not allocated	2,707
Payable to parent and affiliates	220,419
Unearned ceding commissions	459,765
Escheatables	74,050
Other liability - premium deficiency reserve	1,765
Retroactive reinsurance reserve ceded	(1,467,997)
Total liabilities	45,589,459
Common capital stock	3,815,000
Surplus notes	3,000,000
Gross paid in and contributed surplus	7,434,572
Unassigned funds (surplus)	4,558,970
Surplus as regards policyholders	<u>18,808,543</u>
Total liabilities and policyholder surplus	<u>\$64,398,002</u>

**INCOME STATEMENT**  
**For Year Ending December 31, 2015**

Premiums earned	\$25,135,942
Losses incurred	9,098,750
Loss adjustment expenses incurred	5,600,434
Other underwriting expenses incurred	7,055,219
Aggregate write-ins for underwriting deductions	<u>11,230</u>
Total underwriting deductions	21,765,633
Net underwriting gain (loss)	3,370,309
Net investment income earned	375,557
Net realized capital gains (losses)	<u>(99,429)</u>
Net investment gain (loss)	276,127
Net gain (loss) from premium balances charged off	(113,922)
Finance and service charges not included in premiums	112,002
Aggregate write-ins for miscellaneous income	<u>(98,384)</u>
Total other income	(100,303)
Dividends to policyholders	<u>0</u>
Net income before federal income taxes	3,546,133
Federal and foreign income taxes incurred	<u>1,545,502</u>
Net income	<u><u>\$ 2,000,631</u></u>

**RECONCILIATION OF SURPLUS**  
**Changes from December 31, 2011 to December 31, 2015**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Surplus as regards policyholders, December 31 prior year	\$16,326,527	\$10,221,796	\$11,249,572	\$12,893,718
Net income	(12,139,002)	2,098,842	1,675,534	2,000,631
Change in net unrealized capital gains or (losses)	383,073	310	0	(61,497)
Change in net deferred income tax	(2,606,967)	(174,293)	1,618,724	968,439
Change in nonadmitted assets	1,881,615	402,917	(1,497,113)	(145,748)
Change in provision for reinsurance	0	0	(153,000)	153,000
Change in surplus notes	0	0	0	3,000,000
Cumulative effect of changes in accounting principles	376,550	0	0	0
Surplus adjustments paid in	<u>6,000,000</u>	<u>(1,300,000)</u>	<u>0</u>	<u>0</u>
Change in surplus as regards policyholders for the year	<u>(6,104,731)</u>	<u>1,027,776</u>	<u>1,644,146</u>	<u>5,914,825</u>
Surplus as regards policyholders, December 31 current year	<u>\$10,221,796</u>	<u>\$11,249,572</u>	<u>\$12,893,718</u>	<u>\$18,808,543</u>

## ANALYSIS OF EXAMINATION CHANGES IN SURPLUS

Surplus as reported by the Company at December 31, 2015			\$18,808,543
		<u>Increase</u>	<u>Decrease</u>
Losses			\$ (4,684,215)
Loss Adjustment Expense	\$	0	(1,332,079)
Net Increase or (Decrease)	\$	0	<u>\$ (6,016,294)</u>
Surplus per examination at December 31, 2015			<u>\$12,792,249</u>

## COMMENTS ON FINANCIAL STATEMENTS

The Company's combined reserves (Loss and LAE) were deficient by approximately \$6.0 million as of the examination date. The State of Illinois contracted Merlinos & Associates, Inc. to review the reserves of the pooled business. They determined that, on a combined basis, the reserves for the pool were deficient by approximately \$30.1 million. This deficiency was caused by (1) the reserves were booked below the opining actuary's recommendation by approximately \$6.0 million and (2) the opining actuary's reserve estimate was roughly \$24.0 million below the level determined to be necessary. Gateway's share of the pooled business is 20%, therefore, its share of the overall deficiency for losses and LAE was approximately \$6.0 million.

## SUBSEQUENT EVENTS

The Company strengthened reserves during 2016 due, largely, to continued development on existing claims. Changes to the reserving process implemented by the Company during the year had not yet achieved the results anticipated by the Company.

## SUMMARY OF RECOMMENDATIONS

The Company should ensure that Loss and Loss Adjustment Expense Reserves are sufficient and adequately supported. This resulted partly because the Company established reserves below what its own appointed actuary had recommended. The reserves recommended by the appointed actuary were found to be deficient as well and were not adequately supported.

Management's current "reserve memo" does not address IBNR, and thus does not fulfill the requirements of Statement of Statutory Accounting Principles 55 (SSAP). Should the Company wish to materially deviate from the appointed actuary's central estimate in the future, it should ensure that supporting detail complies with SSAP 55.

