

INFINITY PROPERTY & CASUALTY CORP

Form 10-K

February 26, 2015

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-50167

INFINITY PROPERTY AND CASUALTY CORPORATION

(Exact name of registrant as specified in its charter)

OHIO

(State or other jurisdiction of incorporation or organization)

03-0483872

(I.R.S. Employer Identification No.)

3700 COLONNADE PARKWAY

SUITE 600

BIRMINGHAM, ALABAMA

(Address of principal executive offices)

(205) 870-4000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, no par value

Securities registered pursuant to Section 12(g) of the Act: None

(Title of class)

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Act from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to

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submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of June 30, 2014, the aggregate market value of the voting Common Stock held by non-affiliates of the registrant was \$746,839,380 based on the last sale price of Common Stock on that date as reported by The NASDAQ Global Select Market.

As of February 13, 2015, there were 11,473,967 shares of the registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement for the annual meeting of shareholders to be held on May 19, 2015, are incorporated by reference in Part III hereof.

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INFINITY PROPERTY AND CASUALTY CORPORATION 10-K

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains certain “forward-looking statements” which anticipate results based on our estimates, assumptions and plans that are subject to uncertainty. These statements are made subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements in this report not dealing with historical results or current facts are forward-looking and are based on estimates, assumptions and projections. Statements which include the words “assumes,” “believes,” “seeks,” “expects,” “may,” “should,” “intends,” “likely,” “targets,” “anticipates,” “estimates” or the negative version of those words and similar statements of a future or forward-looking nature identify forward-looking statements. Examples of such forward-looking statements include statements relating to expectations concerning market conditions, premium growth, earnings, investment performance, expected losses, rate changes and loss experience.

The primary events or circumstances that could cause actual results to differ materially from what we expect include determinations with respect to reserve adequacy, realized gains or losses on the investment portfolio (including other-than-temporary impairments for credit losses), loss cost trends and competitive conditions in our key Focus States. We undertake no obligation to publicly update or revise any of the forward-looking statements. For a more detailed discussion of some of the foregoing risks and uncertainties that could cause actual results to differ from those contained in the forward-looking statements, see “Risk Factors” contained in Item 1A.

PART I

ITEM 1

Business

Introduction

We are a holding company that provides, through our subsidiaries, personal automobile insurance with a focus on the nonstandard market. Our headquarters is located in Birmingham, Alabama. We employed approximately 2,200 people at December 31, 2014.

We file our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other reports as required with the United States Securities and Exchange Commission (“SEC”). Any of these documents may be read and copied at the SEC’s Public Reference Room at 100 F Street NE, Washington, D.C. 20549. Information regarding the operation of the SEC Public Reference Room may be obtained by calling 1-800-SEC-0330. Our filed documents may also be accessed via the SEC Internet site at <http://www.sec.gov>. All of our SEC filings, news releases and other information may also be accessed free of charge on our website at <http://www.infinityauto.com>. Information on our website is not part of this Form 10-K.

Please see Note 1 to the Consolidated Financial Statements for additional information regarding our history and organization. References to “we” or “us”, unless the context requires otherwise, include the combined operations of our subsidiaries. Unless indicated otherwise, the financial information we present in this report is on a GAAP basis. Schedules may not foot due to rounding.

The Personal Automobile Market

Personal auto insurance is the largest line of property and casualty insurance, accounting for approximately 36%, or \$175 billion, of the estimated \$480 billion of annual industry premium. Personal auto insurance is comprised of preferred, standard and nonstandard risks. Nonstandard auto insurance is intended for drivers who, due to factors such

as their driving record, age or vehicle type, represent a higher than normal risk. As a result, customers who purchase nonstandard auto insurance generally pay a higher premium for similar coverage than the drivers qualifying for standard or preferred policies. While there is no established industry-recognized distinction between nonstandard risks and all other personal auto risks, we believe that nonstandard auto risks constitute approximately 20% of the personal automobile insurance market, with this percentage fluctuating according to competitive conditions in the market. Independent agents sell approximately 27% of all personal automobile insurance. The remainder is sold by captive agents or directly by insurance companies to their customers. We believe that, relative to the standard and preferred auto insurance market, independent agents sell a disproportionately larger portion of nonstandard auto insurance.

The personal auto insurance industry is cyclical, characterized by periods of price competition and excess capacity followed by periods of higher premium rates and shortages of underwriting capacity. We believe that the current competitive environment differs by state.

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Industry-wide, rates increased 4.7% during 2012, 3.3% in 2013 and 4.7% in 2014. Our filed average rate adjustments on our personal auto business were 8.3%, 6.7% and 6.8% for 2012, 2013 and 2014, respectively.

The personal auto insurance industry is highly competitive and, except for regulatory considerations, there are relatively few barriers to entry. We generally compete with other insurers based on price, coverage offered, claims handling, customer service, agent commission, geographic coverage and financial strength ratings. We compete with both large national writers and smaller regional companies. In 2013, the five largest automobile insurance companies accounted for approximately 54% of the industry's net written premium and the largest ten accounted for approximately 71% (2014 industry data is not yet available). Approximately 320 insurance groups and unaffiliated insurance companies compete in the personal auto insurance industry according to SNL Financial, an industry news source. Some of these groups specialize in nonstandard auto insurance while others insure a broad spectrum of personal auto insurance risks.

Our Strategy

We offer personal and commercial automobile insurance primarily in four "Focus States": Arizona, California, Florida and Texas. Our target customers are urban and Hispanic drivers. This narrow geographic and demographic focus allows us to concentrate our efforts and resources on providing competitively priced products to underserved segments while generating adequate returns for our shareholders.

Operations

We are organized along functional responsibilities with the following centralized departments: product management, marketing, claims, customer service, accounting, treasury, human resources and information technology resources. Frequent executive team meetings, which include the Chief Executive Officer, the Chief Financial Officer, the Chief Legal Officer, the Chief Marketing Officer and the Chief Product Management Officer, allow for sharing of information among functional departments and for setting policies and making key strategic decisions.

We estimate that approximately 80% of our personal auto business in 2014 was nonstandard auto insurance. Based on data published by A.M. Best, we believe that we are the second largest provider of nonstandard auto coverage through independent agents in the United States. We also write standard and preferred personal auto insurance, mono-line commercial auto insurance and classic collector automobile insurance.

Presented below is our summarized historical financial data (\$ in thousands):

	Twelve months ended December 31,		
	2014	2013	2012
Gross written premium	\$1,360,870	\$1,339,819	\$1,254,929
Net written premium	1,347,604	1,329,892	1,247,198
Net earnings	57,201	32,633	24,319
		As of December 31,	
		2014	2013
Total assets		\$2,384,812	\$2,317,265
Total liabilities		1,687,153	1,660,507
Total shareholders' equity		697,659	656,758

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We have a history of underwriting results that outperform the industry. The following table compares our statutory combined ratio, net of fees, in past years with those of the private passenger auto industry. The statutory combined ratio is the sum of the loss ratio (the ratio of losses and loss adjustment expenses (“LAE”) to net earned premium) and the expense ratio (when calculated on a statutory accounting basis, the ratio of underwriting expenses, net of fees, to net written premium). Underwriting results are generally considered profitable when the combined ratio is under 100%; when the ratio is over 100%, underwriting results are generally considered unprofitable. We have consistently performed better than the industry as shown below:

	2014	2013	2012	2011	2010	2010-2014	2005-2014		
Infinity	93.6	% 96.0	% 98.3	% 95.8	% 88.4	% 94.7	% 92.5		%
Industry (a)	102.2	% 101.6	% 102.1	% 102.0	% 101.0	% 101.8	% 100.0		%
Percentage point difference from industry	8.6	% 5.6	% 3.8	% 6.2	% 12.6	% 7.1	% 7.5		%

We obtained the private passenger auto industry combined ratios for 2005 through 2013 from A.M. Best. A.M. (a) Best data is not available for 2014. The industry combined ratio for 2014 is an estimate based on data obtained from Conning Research and Consulting.

Products

Personal Automobile is our primary insurance product. It provides coverage to individuals for liability to others for bodily injury and property damage and for physical damage to an insured's own vehicle from collision and various other perils. In addition, many states require policies to provide for first party personal injury protection, frequently referred to as no-fault coverage.

Commercial Vehicle provides coverage to businesses for liability to others for bodily injury and property damage and for physical damage to vehicles from collision and various other perils. With our mono-line commercial automobile insurance product, we primarily target businesses with fleets of 20 or fewer vehicles and average 1.8 vehicles per policy. We avoid businesses that are involved in what we consider to be hazardous operations or interstate commerce. Classic Collector provides protection for classic collectible automobiles. Our Classic Collector program provides coverage to individuals with classic or antique automobiles for liability to others for bodily injury and property damage and for physical damage to an insured's own vehicle from collision and various other perils.

Our three product groups contributed the following percentages of total gross written premium:

	Twelve months ended December 31,			
	2014	2013	2012	
Personal Automobile	91	% 93	% 93	%
Commercial Vehicle	8	% 6	% 6	%
Classic Collector	1	% 1	% 1	%
Total	100	% 100	% 100	%

Distribution and Marketing

We distribute our products primarily through a network of approximately 11,800 independent agencies and brokers in 15,500 locations. Of the locations that produced premium in 2014, approximately 2,160 wrote renewal only business. In 2014, eight independent agencies each accounted for between 1.2% and 7.3% of our gross written premium and 15% of the agency force produced 80% of our gross written premium. Countrywide, our top 10 independent agents and brokers produced 21% of our gross written premium. In California, Infinity's largest state by premium volume, 52 independent agents and brokers produced 50% of gross written premium (which represents 25% countrywide). Our largest broker in California produced 15% of gross written premium in the state.

We foster agent relationships by providing them with access to our Internet web-based software applications along with programs and services designed to strengthen and expand their marketing, sales and service capabilities. Our Internet-based software applications provide many of our agents with e-signature capabilities and real-time underwriting, claims and policy information. We believe the array of services offered to our agents adds significant value to the agents' businesses. For example, “Easy Street” is our incentive-based program through which agents receive

assistance in critical areas such as training, advertising and promotion. In 2014 we spent \$6.4 million on co-op advertising and promotions.

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In 2014 we also wrote \$70.2 million of business sold directly to the consumer through sales centers and via the Internet.

We are licensed to write insurance in all 50 states and the District of Columbia, but we focus our operations in targeted urban areas identified in selected Focus States that we believe offer the greatest opportunity for premium growth and profitability.

We classify the states in which we operate into two categories:

•“Focus States” – These states include Arizona, California, Florida and Texas.

•“Other States” – Includes Georgia, Nevada and Pennsylvania where we began offering renewals only as of January 1, 2015, as well as nine states where we are currently running off our writings.

We continually evaluate our market opportunities; thus, the Focus States and Other States may change over time as new market

opportunities arise, as the allocation of resources changes or as regulatory environments change.

Total gross written premium was as follows (\$ in thousands):

Twelve months ended December 31,

Personal Auto Insurance