

INFINITY PROPERTY & CASUALTY CORP
Form 10-K
February 26, 2010
Table of Contents

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, 2009

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 of other jurisdiction of incorporation or organization)	03-0483872 (I.R.S. Employer Identification No.)
3700 COLONNADE PARKWAY BIRMINGHAM, ALABAMA (Address of principal executive offices)	35243 (Zip Code)
(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	Name of each exchange on which registered: NASDAQ Global Select Market
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.

Table of Contents

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 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, 2009, the aggregate market value of the voting Common Stock held by non-affiliates of the registrant was \$489,807,527 based on the last sale price of Common Stock on that date as reported by The NASDAQ Global Select Market.

As of February 12, 2010, there were 13,418,699 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 26, 2010, are incorporated by reference in Part III hereof.

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION 10-K

INDEX TO ANNUAL REPORT

ON FORM 10-K

	Page
Part I	
Item 1 - <u>Business</u>	1
<u>Introduction</u>	1
<u>Operations</u>	2
Item 1A - <u>Risk Factors</u>	9
Item 1B - <u>Unresolved Staff Comments</u>	12
Item 2 - <u>Properties</u>	12
Item 3 - <u>Legal Proceedings</u>	12
Item 4 - <u>Submission of Matters to a Vote of Security Holders</u>	12
Part II	
Item 5 - <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	13
Item 6 - <u>Selected Financial Data</u>	16
Item 7 - <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
Item 7A - <u>Quantitative and Qualitative Disclosures About Market Risk</u>	49
Item 8 - <u>Financial Statements and Supplementary Data</u>	49
Item 9 - <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	49
Item 9A - <u>Controls and Procedures</u>	50
Item 9B - <u>Other Information</u>	52
Part III	
Item 10 - <u>Directors, Executive Officers and Corporate Governance</u>	52
Item 11 - <u>Executive Compensation</u>	52
Item 12 - <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	52
Item 13 - <u>Certain Relationships and Related Transactions, and Director Independence</u>	52
Item 14 - <u>Principal Accounting Fees and Services</u>	52
Part IV	
Item 15 - <u>Exhibits, Financial Statement Schedules</u>	89

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION 10-K

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains certain statements that may be deemed to be forward-looking statements that 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 believes, seeks, expects, may, should, intends, likely, targets, plans, 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.

Actual results could differ materially from those expected by Infinity depending on: changes in economic conditions and financial markets (including interest rates), the adequacy or accuracy of Infinity's pricing methodologies, actions of competitors, the approval of requested form and rate changes, judicial and regulatory developments affecting the automobile insurance industry, the outcome of pending or new litigation against Infinity, weather conditions (including the severity and frequency of storms, hurricanes, snowfalls, hail and winter conditions), earthquakes and other natural catastrophes, changes in driving patterns and loss trends. Infinity undertakes 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 which 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

Infinity Property and Casualty Corporation (Infinity or the Company) is a holding company that, through subsidiaries, provides personal automobile insurance with a concentration on nonstandard auto insurance. Infinity is headquartered in Birmingham, Alabama. The Company employed approximately 1,780 persons at December 31, 2009.

Infinity files its 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. Infinity's filed documents may also be accessed via the SEC Internet site at: <http://www.sec.gov>. All of Infinity's SEC filings, news releases and other information may also be accessed free of charge on Infinity's Internet site at: <http://www.ipacc.com>. Information on Infinity's website is not part of this Form 10-K.

Please see Note 1 to the Consolidated Financial Statements for additional information regarding the history and organization of Infinity. References to Infinity, unless the context requires otherwise, include the combined operations of its subsidiaries (collectively the NSA Group) and the in-force personal insurance business assumed through a reinsurance contract (the Assumed Agency Business) from Great American Insurance Company (GAI). Unless indicated otherwise, the financial information herein is presented 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 37% of the estimated \$432 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, Infinity believes that nonstandard auto risks generally constitute between 15% and 20% of the personal automobile insurance market, with this range fluctuating according to competitive conditions in the market. Independent agents sell approximately one-third of all personal automobile insurance. The remainder is sold by captive agents or directly by insurance companies to their customers. Infinity believes that,

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relative to the standard and preferred auto insurance market, a disproportionately larger portion of nonstandard auto insurance is sold through independent agents.

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION 10-K

Business

The personal auto insurance industry is cyclical, characterized by periods of price competition and excess capacity followed by periods of high premium rates and shortages of underwriting capacity. Over the past several years, the cycle has been soft, marked by aggressive competition for independent agents' business through increased sales and commission incentives. Infinity observed that, during this soft cycle, some competitors were reducing their overall rates with larger rate reductions in certain segments of the business. The personal automobile component of the Consumer Price Index (CPI) reflects this trend as it indicates personal automobile insurance rates have increased just 0.5%, 0.8% and 1.0% during 2007, 2006 and 2005, respectively, after increasing 3.4% and 4.5% during 2004 and 2003, respectively. However, the market is showing signs of hardening, as Infinity observed a few competitors increasing rates and tightening underwriting standards beginning in 2008 and continuing into 2009. Industry rates increased 4.0% during that year and another 4.7% in 2009. Infinity's average rate adjustments on its personal auto business were (0.3)%, (2.6)%, 3.5%, 0.8% and 2.2% for 2009, 2008, 2007, 2006 and 2005, respectively.

The personal auto insurance industry is highly competitive and, except for regulatory considerations, there are relatively few barriers to entry. Infinity generally competes with other insurers on the basis of price, coverage offered, claims handling, customer service, agent commission, geographic coverage and financial strength ratings. Infinity competes with both large national writers and smaller regional companies. In 2008, the five largest automobile insurance companies accounted for approximately 50% of the industry's net written premium and the largest ten accounted for approximately 68% (2009 industry data is not available). Approximately 332 insurance groups compete in the personal auto insurance industry according to A.M. Best. Some of these groups specialize in nonstandard auto insurance while others insure a broad spectrum of personal auto insurance risks.

Operations

Infinity is 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, the Chief Product Management Officer and the Chief Claims Officer, allow for sharing of information among functional departments and for setting policies and making key strategic decisions.

In recent years, Infinity has made efforts to improve service levels and more consistently and cost effectively manage its operations. The company consolidated certain customer service, centralized claims and information technology back-office operations and opened a bilingual customer service call center to improve its service capabilities.

Infinity estimates that approximately 97% of its personal auto business is nonstandard auto insurance. Based on data published by A.M. Best, Infinity believes that it is the fourth largest provider of nonstandard auto coverage through independent agents in the United States. Infinity also writes standard and preferred personal auto insurance, monoline commercial auto insurance and classic collector automobile insurance.

Table of Contents**INFINITY PROPERTY AND CASUALTY CORPORATION 10-K****Business**

Summarized historical financial data for Infinity is presented below (in thousands):

	Twelve months ended December 31,		
	2009	2008	2007
Gross written premium	\$ 848,812	\$ 896,899	\$ 1,019,119
Net written premium	843,869	892,090	1,014,262
Net earnings	70,594	19,257	71,944

	As of December 31,	
	2009	2008
Total assets	\$ 1,803,671	\$ 1,742,232
Total liabilities	1,185,511	1,216,901
Total shareholders' equity	618,160	525,331

Infinity has a history of favorable underwriting results. The following table compares Infinity's statutory combined ratio 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 to net written premium). When the combined ratio is under 100%, underwriting results are generally considered profitable; when the ratio is over 100%, underwriting results are generally considered unprofitable. Infinity has consistently performed better than the industry as shown below:

	2009	2008	2007	2006	2005	2005-2009	2000-2009
Infinity	87.2%	91.2%	91.8%	88.7%	90.0%	89.9%	94.6%
Industry (a)	99.9%	100.2%	98.3%	95.5%	95.1%	97.8%	99.9%
Percentage points better than industry	12.7%	9.0%	6.5%	6.8%	5.1%	7.9%	5.3%

(a) Private passenger auto industry combined ratios for 2000 through 2008 were obtained from A.M. Best. A.M. Best data were not available for 2009. The industry combined ratio for 2009 is an estimate based on data obtained from Conning Research and Consulting.

Products

Personal Automobile is Infinity's 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. Infinity offers three primary products to individual drivers: the Low-Cost product, which offers the most restricted coverage, the Value-Added product, which offers broader coverage and higher limits, and the Premier product, which offers the broadest coverage and is designed for standard and preferred risk drivers. For the year ended December 31, 2009, Infinity's mix of personal automobile written premium was 12% Low-Cost, 85% Value-Added and 3% Premier.

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. Infinity offers monoline commercial automobile insurance to businesses with fleets of 12 or fewer vehicles. Businesses that are involved in what Infinity considers to be hazardous operations or interstate commerce are generally avoided.

Classic Collector provides protection for classic collectible automobiles. Infinity's 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.

Table of Contents**INFINITY PROPERTY AND CASUALTY CORPORATION 10-K****Business**

Infinity's three product groups contributed the following percentages of total gross written premium:

	Twelve months ended December 31,		
	2009	2008	2007
Personal Automobile	92%	93%	94%
Commercial Vehicle	6%	5%	4%
Classic Collector	2%	2%	2%
Total	100%	100%	100%

Distribution and Marketing

Infinity distributes its products primarily through a network of over 12,600 independent agencies and brokers (with approximately 16,000 locations). In 2009, four independent agencies each accounted for between 2% and 3% of Infinity's gross written premium, two other agencies each accounted for between 1% and 2% of the Company's gross written premium and 14.0% of the agency force produced 80% of Infinity's gross written premium. In California, Infinity's largest state by premium volume, 43% of gross written premium (which represents 23.5% countrywide) was produced by forty independent agents and brokers.

Infinity also fosters agent relationships by providing them with access to Infinity's Internet web-based software applications along with programs and services designed to strengthen and expand their marketing, sales and service capabilities. Infinity's Internet-based software applications provide many of its agents with real-time underwriting, claims and policy information. Infinity believes the array of services that it offers to its agents adds significant value to the agents' businesses. For example, Providing Agents Service and Support Program is Infinity's incentive-based program through which agents receive assistance in critical areas such as training, advertising and promotion. In 2009, Infinity spent \$10.8 million on co-op advertising and promotions.

Strategic partnerships are another mode of distribution for Infinity. These are relationships with non-affiliated property and casualty insurers that have their own captive agency forces. These companies usually provide standard and preferred auto coverage through one of their own companies while utilizing Infinity's companies for their nonstandard risks. Infinity believes these relationships are mutually beneficial because its partners gain access to Infinity's nonstandard auto expertise, and Infinity gains access to a new distribution channel.

Infinity is licensed to write insurance in all 50 states and the District of Columbia, but is committed to growth in targeted urban areas (Urban Zones) identified within selected Focus States that management believes offer the greatest opportunity for premium growth and profitability. Infinity classifies the states in which it operates into three categories:

Focus States Infinity has identified Urban Zones in these states which include: Arizona, California, Florida, Georgia, Illinois, Nevada, Pennsylvania and Texas.

Maintenance States Infinity is maintaining its writings in these states which include: Alabama, Colorado, Connecticut, Missouri, Ohio, South Carolina, and Tennessee. Infinity believes each state offers the Company an opportunity for underwriting profit.

Other States Includes all remaining states.

Infinity further classifies the Focus States into two categories:

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Urban Zones include the following urban areas:

Arizona Phoenix and Tucson

California Bay Area, Los Angeles, Sacramento, San Diego, and San Joaquin Valley

Florida Jacksonville, Miami, Orlando, Sarasota and Tampa

Georgia Atlanta

Illinois Chicago

Nevada Las Vegas

Pennsylvania Allentown and Philadelphia

Texas Dallas, Fort Worth, Houston and San Antonio

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION 10-K

Business

Non-Urban Zones include all remaining areas in the Focus States outside of a designated Urban Zone. Infinity continually evaluates its market opportunities; thus the Focus States, Urban Zones, Maintenance States and Other States may change over time. In the table below, Infinity has restated 2008 and 2007 premium to be consistent with the 2009 classification of Urban Zones, Focus States, Maintenance States and Other States.

Table of Contents**INFINITY PROPERTY AND CASUALTY CORPORATION 10-K****Business**

Total gross written premium among the three state categories are as follows:

	Twelve months ended December, 31		
	2009	2008	2007
Personal Auto Insurance			
Focus States:			
California			
Urban Zones	53%	50%	51%
Non-Urban Zones	1%	1%	2%
Florida			
Urban Zones	8%	9%	8%
Non-Urban Zones	4%	5%	6%
Texas			
Urban Zones	5%	5%	4%
Non-Urban Zones	1%	1%	1%
Pennsylvania			
Urban Zones	4%	3%	3%
Non-Urban Zones	2%	2%	2%
Arizona			
Urban Zones	3%	3%	4%
Non-Urban Zones	*	*	*
Nevada			
Urban Zones	3%	3%	2%
Non-Urban Zones	*	*	*
Georgia			
Urban Zones	2%	3%	3%
Non-Urban Zones	2%	3%	3%
Illinois			
Urban Zones	1%	*	*
Non-Urban Zones	*	*	*
Total Focus States	88%	87%	86%
Maintenance States	4%	5%	7%
Other States	*	*	*
Subtotal	92%	93%	94%
Commercial Vehicle	6%	5%	4%
Classic Collector	2%	2%	2%
Other	*	*	*
Total All States and All Lines	100%	100%	100%
Total \$ (in thousands) - All States and All Lines ⁽¹⁾	848,816	896,902	1,019,011

⁽¹⁾ 2009 and 2008 exclude less than \$(0.1) million each of premium written on behalf of other companies. 2007 excludes \$0.1 million of premium written on behalf of other companies.

* denotes less than one percent

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION 10-K

Business

Infinity's distribution and marketing efforts are implemented with a focus on maintaining a low-cost structure. Controlling expenses allows Infinity to price competitively and achieve better underwriting returns. Over the five years ended 2008, years for which industry data are available from A.M. Best, Infinity's statutory ratio of underwriting expenses to premium written has averaged 21.5%, which is 5.1 points better than the independent agency segment of the private passenger automobile industry average of 26.7% for the same period.

Claims Handling

Infinity strives for accuracy, consistency and fairness in its claim resolutions. Infinity's claims organization employs approximately 840 people and has 33 field locations and provides a 24-hour, seven days per week toll-free service for its customers to report claims. Infinity predominantly uses its own local adjusters and appraisers, who typically respond to claims within 24 hours of a report. Included in the 33 field locations are 11 claims service centers, which allow customers to conveniently bring in their vehicles for damage appraisal.

Infinity is committed to the field handling of claims in Urban Zones and believes it provides, when compared to alternative methods, better service to its customers and better control of the claim resolution process. Infinity opens claims branch offices in the Urban Zones where the volume of business will support them. Customer interactions can occur with generalists (initial and continuing adjusters) and specialists (staff appraisers, field casualty representatives and special investigators) based on local market volume, density and performance.

In addition to the use of field claims handling, Infinity uses two centralized claims call centers, one in Birmingham, Alabama and another in McAllen, Texas, to receive initial reports of losses and to adjust simple property damage claims.

Ratings

A.M. Best has assigned Infinity's insurance company subsidiaries a group financial strength rating of **A** (Excellent). According to A.M. Best, **A** ratings are assigned to insurers that, in A.M. Best's opinion, have an excellent ability to meet their ongoing insurance obligations. A.M. Best bases its ratings on factors that concern policyholders and not upon factors concerning investor protection.

Regulatory Environment

Infinity's insurance company subsidiaries are subject to regulation and supervision by insurance departments of the jurisdictions in which they are domiciled or licensed to transact business. State insurance departments have broad administrative power relating to licensing insurers and agents, regulating premium rates and policy forms, establishing reserve and investment requirements, prescribing statutory accounting methods and the form and content of statutory financial reports, and regulating methods and processes of how an insurer conducts its business. Recent examples of the latter include the establishment in California of auto rating factor and rate approval regulations, proscription on credit based insurance scoring, prohibition of certain business practices with auto body repair shops, and attempts to set uniform auto body repair shop parts and labor rates.

Under state insolvency and guaranty laws, regulated insurers can be assessed or required to contribute to state guaranty funds to cover policyholder losses resulting from insurer insolvencies. Insurers are also required by many states, as a condition of doing business in the state, to participate in various assigned risk pools, reinsurance facilities or underwriting associations, which provide various insurance coverages to individuals who otherwise are unable to purchase that coverage in the voluntary market. Participation in these involuntary plans is generally in proportion to voluntary writings of related lines of business in that state. The underwriting results of these plans traditionally have been unprofitable. The amount of premium Infinity might be required to assume in a given state in connection with an involuntary plan may be reduced because of credits Infinity may receive for nonstandard policies that it voluntarily writes. Many states also have laws and regulations that limit an insurer's ability to exit a market. For example, certain states limit an automobile insurer's ability to cancel and non-renew policies.

State insurance departments that have jurisdiction over Infinity's insurance subsidiaries may conduct routine, on-site visits and examinations of the companies' affairs. At December 31, 2009, Infinity's insurance subsidiaries were involved in a rating and underwriting examination in California, Infinity's largest state. As of February 26, 2010 this examination has not been completed. These examinations have from time to time given rise to, and are likely to give rise to in the future, regulatory orders requiring remedial, injunctive or other action on the part of an insurance subsidiary or the assessment of substantial

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION 10-K

Business

ines or other penalties against Infinity's insurance subsidiaries. Every five years, Infinity's insurance subsidiaries are subject to a financial examination by the states in which the subsidiaries are domiciled. During 2007, the states' examinations of the 2002 through 2006 statutory financial statements were completed with no financial adjustments required.

The insurance laws of the states of domicile of Infinity's insurance subsidiaries contain provisions to the effect that the acquisition or change of control of a domestic insurer or of any entity that controls a domestic insurer cannot be consummated without the prior approval of the relevant insurance regulator. In addition, certain state insurance laws contain provisions that require