INFINITY PROPERTY & CASUALTY CORP
Form 10-K
February 15, 2018
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017
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	03-0483872
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2201 4TH AVENUE NORTH BIRMINGHAM, ALABAMA	35203
(Address of principal executive offices)	(Zip Code)

(205) 870-4000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:	Name of each exchange on which registered:
Common Stock, no par value	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None
(Title of class)
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ý Yes ¨ No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ¨ Yes ý No
Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange 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. ý 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). ý Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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. ý

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

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	¨
Emerging growth company	¨		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

As of June 30, 2017, the aggregate market value of the voting Common Stock held by non-affiliates of the registrant was $1,007,156,859 based on the last sale price of Common Stock on that date as reported by The NASDAQ Global Select Market.

As of February 9, 2018, there were 10,935,412 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 22, 2018, are incorporated by reference in Part III hereof.

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION 10-K

TABLE OF CONTENTS

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 “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 (defined in Item 1 - Business). 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, refer to Item 1A - Risk Factors.

PART I

ITEM 1

Business

Introduction

Infinity Property and Casualty Corporation was incorporated under the laws of the State of Ohio on September 16, 2002. We are a holding company that provides insurance, through our subsidiaries, for personal auto with a concentration on nonstandard risks, commercial auto and classic collectors. Our headquarters is located in Birmingham, Alabama. We employed approximately 2,300 people at December 31, 2017.

Refer to Note 1 - Significant Reporting and Accounting Policies 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 Generally Accepted Accounting Principles (GAAP) basis. Schedules may not foot due to rounding.

On February 13, 2018, the Company entered into a definitive agreement and plan of merger (the “Merger Agreement”) with Kemper Corporation, a Delaware corporation (“Parent”) and Vulcan Sub, Inc., an Ohio corporation and a wholly owned subsidiary of Parent (“Merger Sub”). The Merger Agreement provides that, subject to the satisfaction or waiver of certain conditions set forth therein, Merger Sub will merge with and into the Company in accordance with the Ohio General Corporation Law (the “Merger”), with the Company surviving such Merger as a wholly owned subsidiary of Parent (such entity, the “Surviving Company”). The Company expects the closing of the Merger to occur in the third quarter of 2018.

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 N.E., Washington, DC 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.

Our Strategy

We offer personal and commercial auto insurance primarily in four key 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.

Segments

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, some states require policies to provide for first party personal injury protection, frequently referred to as no-fault coverage.

Table of Contents

Personal auto insurance is the largest line of property and casualty insurance, accounting for approximately 39%, or $207 billion, of the estimated $535 billion of annual industry premium. Personal auto insurance comprises preferred, standard and nonstandard risks. Nonstandard risks are associated with drivers who, due to factors such as their driving record, driving experience, lapse in, (or the absence of) prior insurance, or credit history, represent a higher than normal risk. Customers in the market for nonstandard auto insurance generally seek minimum required liability limits and are willing to accept restrictive coverages in exchange for more affordable insurance, given their risk profile. There is no established industry-recognized distinction between nonstandard risks and all other personal auto risks.
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. These cycles may vary by geographic market.
Industrywide, rates increased 7.9%, 7.0% and 5.7% in 2017, 2016 and 2015, respectively. Our filed average rate adjustments on our personal auto business were 8.9%, 8.1% and 5.1% 2017, 2016 and 2015, 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 small regional companies. In 2016, the five largest automobile insurance companies accounted for approximately 56% of the industry's net written premium and the largest ten accounted for approximately 72% (2017 industry data is not yet available). Approximately 299 insurance groups and unaffiliated insurance companies compete in the personal auto insurance industry. Some of these groups specialize in nonstandard auto insurance while others insure a broad spectrum of personal auto insurance risks.
Based on data published by A.M. Best, we believe that we are the second largest provider of nonstandard personal auto coverage through independent agents in the United States. We also write standard and preferred personal auto insurance.
We have a history of underwriting results that outperform the personal auto 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.

	2017	2016	2015	2014	2013	2013-2017	2008-2017
Personal Auto Segment	93.0 %	94.9 %	93.6 %	94.5 %	96.2 %	94.4 %	94.0 %
Industry [(a)]	106.1%	106.3%	104.6%	102.3%	101.6%	104.3 %	102.9 %
Percentage point difference from industry	13.1 %	11.4 %	11.0 %	7.8 %	5.4 %	9.8 %	8.9 %

(a) We obtained the private passenger auto industry combined ratios for 2008 through 2016 from A.M. Best. A.M. Best data is not available for 2017. The industry combined ratio for 2017 is an estimate based on data obtained from Conning Research and Consulting.

Commercial Auto 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.
Approximately 339 insurance groups and unaffiliated insurance companies compete in the commercial auto insurance industry. Writers of commercial auto insurance typically focus on one or more of the various segments of commercial auto. We avoid the segments that are involved in what we consider to be hazardous operations or interstate commerce. The primary segment of the market on which we focus is artisan contractors, which makes up approximately 19% of the industry's commercial auto premium. We primarily target businesses with fleets of 10 or fewer vehicles, averaging

1.9 vehicles per policy.

Classic Collector 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.

Refer to Note 17 – Segment Information to the Consolidated Financial Statements for information on our revenues and underwriting income by segment.

2

Distribution and Marketing

We distribute our products primarily through a network of approximately 10,600 independent agencies and brokers in 15,600 locations. In 2017, 16% of our agency force produced 80% of our gross written premium, our top 10 independent agents and brokers produced 22%, eight independent agencies accounted for more than 1% each, and our top agent produced 7%. In California, Infinity's largest state by premium volume, 54 independent agents and brokers produced 50% of gross written premium in the state (which represents 24% countrywide), and our largest broker in the state produced 15% of that premium. In Florida, Infinity's second largest state by premium volume, 32 independent agents and brokers produced 50% of gross written premium in the state (which represents 13% countrywide), and our largest agent in the state produced 19% of that premium.

We foster agent relationships by providing them with access to our Internet-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 2017 we spent $12.5 million on co-op advertising and promotions.

In 2017 we also wrote $94.0 million of business sold directly to the consumer either through company-owned sales centers or 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 states that we believe offer the greatest opportunity for premium growth and profitability.

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

	Twelve months ended December 31,					
Personal Auto:	2017		2016		2015	
California	46.1	%	49.0	%	49.2	%
Florida	25.4	%	29.4	%	31.9	%
Texas	11.8	%	6.3	%	3.9	%
Arizona	2.3	%	1.3	%	1.2	%
Other States	1.6	%	2.4	%	3.6	%
Total Personal Auto	87.1	%	88.5	%	89.8	%
Commercial Auto	11.7	%	10.4	%	9.1	%
Classic Collector	1.2	%	1.1	%	1.1	%
Total all states and all lines	100.0	%	100.0	%	100.0	%
Total all states and all lines	$1,397,294		$1,401,414		$1,387,866	

We implement our distribution and marketing efforts with a focus on maintaining a low cost structure. Controlling expenses allows us to price competitively and achieve better underwriting returns. Over the five years ended 2016, years for which industry data is available from A.M. Best, our statutory ratio of underwriting expenses to premium written has averaged 17.8%, which is 8.0 points better than the independent agency segment of the private passenger automobile industry average of 25.8% for the same period.

Claims Handling

We strive for accuracy, consistency and fairness in our claim resolutions. Our claims organization employs approximately 1,300 people, has several field locations in each of the states in which we do business and provides a 24-hour, seven days per week toll-free service for our customers to report claims. We predominantly use our own local adjusters and appraisers.

We are committed to the field handling of claims and we believe that it provides, when compared with alternative methods, better service to our customers and better control of the claim resolution process. We open claims branch offices in urban areas 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, we use centralized claims call centers to receive initial reports of losses and to adjust simple property damage claims.

Ratings

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

Standard and Poor's has assigned our insurance company subsidiaries insurer financial strength ratings of "A" (Strong). An insurer rated "A" by Standard and Poor's has "strong financial security characteristics but is somewhat more likely to be affected by adverse business conditions than are insurers with higher ratings." Insurer financial strength ratings do not refer to an organization's ability to meet nonpolicy (debt) obligations.

Regulatory Environment

Our 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. 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. Many states also require insurers, as a condition of doing business in the state, to participate in various assigned risk pools, reinsurance facilities or underwriting associations, which provide insurance coverage 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 we might be required to assume in a given state in connection with an involuntary plan may be reduced because of credit we may receive for nonstandard policies that we voluntarily write. 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 our insurance subsidiaries may conduct routine, on-site visits and examinations of our subsidiaries' affairs. There were no open market conduct examinations as of February 15, 2018. These examinations have from time to time given rise to regulatory orders requiring remedial, injunctive or other action on the part of an insurance subsidiary or the assessment of substantial fines or other penalties against our insurance subsidiaries, and are likely to do so in the future. Every five years, our insurance subsidiaries are subject to a financial examination by the states in which the subsidiaries are domiciled. We expect the examination of years 2012 through 2016 to be completed during the first quarter of 2018 with no adjustment to statutory capital surplus.

The insurance laws of the states of domicile of our 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 require pre-acquisition notification to state agencies of a change in control with respect to a non-domestic insurance company licensed to do business in that state. Such approval requirements may deter, delay or prevent certain transactions affecting the ownership of our common stock.

We are a holding company with no business operations of our own. Consequently, our ability to pay dividends to shareholders and meet our debt payment obligations is largely dependent on dividends or other distributions from our insurance company subsidiaries, current investments and cash held. State insurance laws restrict the ability of our insurance company subsidiaries to declare shareholder dividends. These subsidiaries may not make an “extraordinary dividend” until thirty days after the applicable commissioner of insurance has received notice of the intended dividend and has either not objected or has approved the payment of the extraordinary dividend within the 30-day period. An extraordinary dividend is defined as any dividend or distribution that, together with other distributions made within the preceding twelve months, exceeds the lesser of (i) 10% of the insurer's surplus; or (ii) the insurer's net income excluding realized capital gains for the twelve-month period ended the preceding December 31st, in each case determined in accordance with statutory accounting practices. In addition, an insurer's remaining surplus after payment of a cash dividend to shareholder affiliates must be both reasonable in relation to its outstanding liabilities and adequate to its financial needs.

If a shareholder dividend does not rise to the statutory level of an extraordinary dividend, then it is an “ordinary dividend.” While an insurance company’s ability to pay an ordinary dividend does not require the approval of a state insurance department, it must

Table of Contents

file a 10-day notice of ordinary dividend with the appropriate insurance department. Insurance companies that fail to notify an insurance department of the payment of an ordinary dividend are assessed administrative fines.

State insurance laws require our subsidiaries to maintain specified levels of statutory capital and surplus. Generally, the net admitted assets of insurance companies that, subject to other applicable insurance laws and regulations, are available for transfer to the parent company cannot include the net admitted assets required to meet the minimum statutory surplus requirements of the states where the companies are licensed. In addition, for competitive reasons, our insurance company subsidiaries need to maintain adequate financial strength ratings from independent rating agencies. Both of these factors may limit the ability of our insurance subsidiaries to declare and pay dividends.

ITEM 1A

Risk Factors

Our business operations face a number of risks. The risks below should be read and considered with other information provided in this report and in other reports and materials we have filed with the SEC. In addition to these risks, other risks and uncertainties not presently known to us or that we currently believe to be immaterial may also materially adversely affect our business, financial condition and/or operating results.

The announced merger agreement with Kemper Corporation is subject to various closing conditions, including regulatory and other approvals.

On February 13, 2018, we entered into a Merger Agreement pursuant to which the Company would become a wholly owned subsidiary of Kemper Corporation. The closing of the merger is subject to certain conditions, including, among others (i) the adoption of the Merger Agreement by holders of at least a majority of the outstanding Company Shares entitled to vote thereon; (ii) the expiration or earlier termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and regulatory approval by the Securities and Exchange Commission (the “SEC”); (iii) the absence of any temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Merger; (iv) no more than 10% of the outstanding Company shares shall have properly elected appraisal rights; (v) the shares of Kemper common stock issuable to the Company’s shareholders have been approved for listing on the NYSE; (vi) the Form S-4 registering the Kemper shares comprising part of the merger consideration has been declared effective by the SEC; and (vii) certain employees of the Company must be retained.

A number of the closing conditions are outside of our control and we cannot predict with certainty whether all of the required closing conditions will be satisfied or waived or if other uncertainties may arise. In addition, regulators could impose additional requirements or obligations as conditions for their approvals, which may be burdensome. Despite our best efforts, we may not be able to satisfy the various closing conditions or obtain the necessary waivers or approvals in a timely fashion or at all, in which case the Merger would be prevented or delayed.

If we fail to price accurately the risks we underwrite, profitability may be affected.

Our profitability depends on our ability to set premium rates accurately. Inflationary pressures on medical care, auto parts and repair services costs complicate pricing with accuracy. Accurate pricing is also dependent on the availability of sufficient, reliable data on which to project both severity and frequency trends and timely recognition of changes in loss cost trends. This process poses more of a challenge in markets where we have less pricing experience. We could under-price risks, which could negatively affect our profit margins, or over-price risks, which could reduce sales volume and competitiveness. Either scenario could adversely affect profitability.

Because of the significant concentration of our business in California and Florida, negative developments in the regulatory, legal or economic conditions in these states may adversely affect our profitability.

California and Florida personal auto business represented 72% of our total gross written premium in 2017. In 2017 our two largest urban zones, Los Angeles and Miami, represented 48% of total gross written premium. Our personal auto business may become further concentrated in these states and within our two largest urban zones. Consequently, the dynamic nature of regulatory, legal, competitive and economic conditions in these states affects our revenues and profitability. Further, both California and Florida have regulations that limit the after-tax return on underwriting profit allowed for an insurer. These conditions could negatively affect premium revenue and make it more expensive or less profitable for us to conduct business in these states.

Table of Contents

We rely upon a limited number of independent agents to generate a substantial portion of our business. If we were unable to retain or increase the level of business that these independent agents place with us or increase the level of business generated by other agents, our revenues would be negatively affected.

Approximately 16% of our 10,600 independent agencies and brokers accounted for approximately 80% of our gross written premium in 2017. Further, in California, 54 agencies and brokers produced 50% of our premium in the state, accounting for 24% of our premium nationwide, and in Florida, 32 independent agents and brokers produced 50% of gross written premium in the state, accounting for 13% of our premium nationwide.

We must compete with other insurance carriers for the business of these agents in an increasingly competitive marketplace. Some competitors offer more advanced systems to quote and process business, a larger variety of products, lower prices for insurance coverage, higher commissions or more attractive cash and non-cash incentives. In addition, some of our current agencies may merge or be acquired and the surviving entity may reduce the number of insurers with which business is placed.

If we fail to establish accurate loss reserves, our financial position and results of operations may be affected.

Our loss reserves are our best estimate of the amounts that will be paid for losses incurred as well as losses incurred but not reported. The accuracy of these estimates depends on a number of factors, including but not limited to the availability of sufficient and reliable historical data, inflationary pressures on medical and auto repair costs, changes in regulation, changes in frequency and severity trends and changes in our claims settlement practices. Because of the inherent uncertainty involved in the practice of establishing loss reserves, ultimate losses paid could vary materially from recorded reserves and may adversely affect our operating results.

We are vulnerable to a reduction in business written through the independent agent distribution channel.

Reliance on the independent agency as our primary distribution channel makes us vulnerable to the growing popularity of direct to consumer distribution channels, particularly the Internet. Approximately 73% of all personal automobile insurance sold in the United States is sold direct or through captive agents (agents employed by one company or selling only one company's products) and approximately 27% is sold by independent agents. A material reduction in business generated through the independent agency channel could negatively affect our revenues and growth opportunities.

Judicial, regulatory and legislative changes or challenges to prevailing insurance industry practices as well as technology innovations are ongoing, and could adversely affect our revenue or operating results.

Political, judicial, economic and financial developments occasionally lead to challenges or changes to established industry practices. Examples include challenges to (i) the use of credit and other rating factors in making risk selection and pricing decisions; and (ii) how Florida Personal Injury Protection (PIP) payments to providers are calculated. It is difficult to predict the outcome or impact of current challenges or to identify others that might be brought in the future, but some could result in class action litigation, regulatory sanctions and substantial fines or penalties. In addition, auto technology advancements such as driverless cars, and emerging business models, including transportation network companies and usage-based insurance, could materially impact our revenue over time.

The failure to maintain or to develop further reliable, efficient and secure information technology systems would be disruptive to our operations and diminish our ability to compete successfully.

We are highly dependent on efficient and uninterrupted performance of our information technology and business systems. These systems quote, process and service our business, and perform actuarial functions necessary for pricing and product development. These systems must also be able to undergo periodic modifications and improvements without interruptions or untimely delays in service. This capability is crucial to meeting growing customer demands for user friendly, online capabilities and convenient, quality service. We are undergoing fundamental changes and improvements to our information technology (IT) platform. A failure or delay to achieve these improvements could interrupt certain processes or degrade business operations and could place us at a competitive disadvantage. Additionally, failure to maintain secure systems could result in unauthorized access to or theft of sensitive customer or company data, misappropriation of funds or disruption to our systems.

The inability to recruit, develop and retain key personnel could prevent us from executing our key business and financial objectives.

The highly competitive nature of our industry, along with the advantages that larger, better-known firms possess in the recruiting process, poses a challenge with respect to both employee retention and recruitment efforts. Successful execution of our key business and financial objectives depends, in part, on our ability to retain, develop or find qualified successors for key personnel. The

6

Table of Contents

announcement of the loss of key personnel or the delay or inability to retain or appoint successors could negatively affect our stock price, our retention of other key personnel, or hinder us in achieving our business and financial objectives given the specialized knowledge of each of our executive officers and the limited pool of candidates with experience relevant to our operations.

Extra-contractual losses arising from bad faith claims could materially reduce our profitability.

In California and Florida, courts and laws are often viewed as unfavorable toward an insurer in litigation brought against it by policyholders and third-party claimants. This tends to increase our exposure to monetary damages beyond policy limits, in what are commonly referred to as "extra-contractual" or "bad faith" claims. Such claims may result in losses that materially reduce our profitability.

Our goodwill may be at risk for impairment if actual results regarding growth and profitability vary from our estimates.

At December 31, 2017, we had $75.3 million, or approximately $6.88 per share, of goodwill. In accordance with the Goodwill topic of the FASB Accounting Standards Codification, we perform impairment test procedures for goodwill on an annual basis. These procedures require us to calculate the fair value of goodwill, compare the result to our carrying value and record the amount of any shortfall as an impairment charge.

We use a variety of methods to test goodwill for impairment, including estimates of future discounted cash flows and comparisons of our market value to our major competitors. Our cash flow projections rely on assumptions that are subject to uncertainty, including premium growth, loss and loss adjustment expense ratios, interest rates and capital requirements. If actual results differ significantly from these assumptions, the fair value of our goodwill could fall below our carrying value and we could be required to record an impairment charge.

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION 10-K

ITEM 1B
Unresolved Staff Comments
None.
ITEM 2
Properties
Our insurance subsidiaries lease 158,741 square feet of office space in numerous cities throughout the United States. All of these leases expire within six years. The most significant leased office spaces are located in Miami, Florida; Cerritos, California and Alpharetta, Georgia. Refer to Note 14 – Commitments and Contingencies to the Consolidated Financial Statements for further information about leases. We own a 33,515 square foot call center in McAllen, Texas, a 50,900 square foot call center in Tucson, Arizona, and three properties in Birmingham, Alabama - a 116,433 square foot building, a 62,808 square foot warehouse and a 120,493 square foot building which serves as our corporate headquarters. The properties identified above are used by all segments reported in the Notes to Consolidated Financial Statements.
ITEM 3
Legal Proceedings
Refer to Note 13 – Legal and Regulatory Proceedings to the Consolidated Financial Statements for a discussion of our material legal proceedings. Except for those legal proceedings disclosed in Note 13 to the Consolidated Financial Statements, we believe that none of the legal proceedings to which we are subject meet the threshold for disclosure under this item.
ITEM 4
Mine Safety Disclosures

Not applicable.

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION 10-K

PART II
ITEM 5
Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities
We had 58 registered holders of record as of February 9, 2018. Our common stock is listed and traded on the NASDAQ Global Select Market under the symbol IPCC. The stock prices in the following table are over-the-counter market quotations that reflect transactions between dealers; retail markups and commissions are not reflected. These prices may not represent actual transactions. Our closing per-share stock price on February 9, 2018, was $95.60. Refer to Note 12 – Statutory Information to the Consolidated Financial Statements for information about restrictions on transfer of funds and assets of subsidiaries.
Infinity Quarterly High and Low Stock Prices and Dividends Paid by Quarter

For the quarter ended	High	Low	Close	Dividends Declared and Paid Per Share	Return to Shareholders (excluding dividends) [a]	Return to Shareholders (including dividends) [b]
March 31, 2016	$84.10	$73.26	$80.50	$ 0.52	(2.1)%	(1.5)%
June 30, 2016	86.79	73.92	80.66	0.52	0.2 %	0.8 %
September 30, 2016	86.74	76.37	82.63	0.52	2.4 %	3.1 %
December 31, 2016	90.50	73.80	87.90	0.52	6.4 %	7.0 %
March 31, 2017	$99.55	$84.60	$95.50	$ 0.58	8.6 %	9.3 %
June 30, 2017	101.70	90.75	94.00	0.58	(1.6)%	(1.0)%
September 30, 2017	100.70	83.00	94.20	0.58	0.2 %	0.8 %
December 31, 2017	110.63	86.45	106.00	0.58	12.5 %	13.1 %
For the twelve months ended						
December 31, 2016	$90.50	$73.26	$87.90	$ 2.08	6.9 %	9.4 %
December 31, 2017	110.63	83.00	106.00	2.32	20.6 %	23.2 %

(a) Calculated by dividing the change in share price during the period presented by the share price at the beginning of the period presented.

(b) Calculated by dividing (i) the sum of the amount of the dividend, assuming dividend reinvestment, and the change in share price during the period presented; by (ii) the share price at the beginning of the period presented.

The information required under the heading "Equity Compensation Plan Information" is provided under Item 12 – Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters herein.
During the fiscal year ended December 31, 2017, all of our equity securities sold were registered under the Securities Act of 1933, as amended.

Table of Contents

The following table presents information with respect to purchases of our common stock made during the three months ended December 31, 2017, by us or any of our "affiliated purchasers" as defined in Rule 10b-18(a)(3) under the Exchange Act:

Period	Total Number of Shares Purchased	Average Price Paid per Share [a]	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value that May Yet Be Purchased Under the Plans or Programs [b]
October 1, 2017 - October 31, 2017	41,900	$ 94.29	41,900	$ 23,169,053
November 1, 2017 - November 30, 2017	6,800	$ 93.71	6,800	$ 22,531,509
December 1, 2017 - December 31, 2017	—	$ —	—	$ 22,531,509
Total	48,700	$ 94.21	48,700	$ 22,531,509

(a) Average price paid per share excludes commissions.

(b) On November 4, 2014, our Board of Directors increased the authority under our current share and debt repurchase plan to a total of $75.0 million and extended the date to execute the program to December 31, 2016, from December 31, 2014. On November 1, 2016, our Board approved the extension of the date to execute the program from December 31, 2016, to December 31, 2017, and on November 2, 2017, approved an extension to December 31, 2018.

The following graph shows the comparison of cumulative total shareholder return on our common stock over the five years ended December 31, 2017. The return is measured by dividing (i) the sum of the cumulative amount of dividends, assuming dividend reinvestment, and the change in share price during the periods presented; by (ii) the share price at the beginning of the periods presented. The graph demonstrates cumulative total returns for Infinity, the NASDAQ OMX Global Total Return Index for NASDAQ US Benchmark and the NASDAQ OMX Global Total Return for Industrial Classification Benchmark (ICB): 8500 Insurance (Supersector).

Cumulative Total Return as of December 29, 2017

(Assumes a $100 investment at the close of trading on December 31, 2012)

	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/30/2016	12/29/2017
IPCC	$ 100.00	$ 125.58	$ 138.08	$ 150.14	$ 164.56	$ 203.23
NASDAQ US	100.00	133.48	150.12	150.84	170.46	206.91
ICB: 8500 Insurance	100.00	141.64	160.85	159.67	192.30	224.89

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION 10-K

ITEM 6

Selected Financial Data

($ in thousands, except per share data)	2017	2016	2015	2014	2013
Gross written premium	$1,397,294	$1,401,414	$1,387,866	$1,360,870	$1,339,819
Gross written premium growth	(0.3)%	1.0%	2.0%	1.6%	6.8%
Net written premium	1,386,853	1,392,459	1,373,287	1,347,604	1,329,892
Net earned premium	1,371,336	1,391,664	1,346,564	1,325,935	1,302,525
Total revenues	1,517,987	1,538,706	1,484,032	1,461,709	1,443,233
Loss & LAE ratio	76.8%	78.8%	76.9%	75.5%	78.1%
Underwriting ratio	18.3%	17.9%	18.7%	19.6%	19.9%
Combined ratio	95.2%	96.7%	95.6%	95.1%	98.0%
Net earnings	$45,384	$43,085	$51,481	$57,201	$32,633
Net earnings per diluted share	$4.10	$3.88	$4.51	$4.95	$2.80
Return on average common shareholders' equity	6.4%	6.2%	7.4%	8.4%	5.0%
Cash and investments	$1,647,242	$1,576,514	$1,538,536	$1,611,594	$1,582,238
Total assets	2,473,411	2,402,601	2,385,135	2,382,998	2,315,263
Unpaid losses and LAE	715,098	685,455	669,965	668,177	646,577
Unearned premium	627,575	614,347	616,649	589,260	566,004
Long-term debt	273,809	273,591	273,383	273,186	272,998
Total liabilities	1,753,130	1,703,414	1,697,540	1,685,339	1,658,505
Total shareholders' equity	720,281	699,187	687,595	697,659	656,758
Cash dividends per common share	$2.32	$2.08	$1.72	$1.44	$1.20
Common shares outstanding	10,935	11,044	11,151	11,483	11,504
Book value per common share	$65.87	$63.31	$61.66	$60.75	$57.09
Ratios:					
Debt to total capital	27.6%	28.2%	28.6%	28.3%	29.5%
Debt to tangible capital	29.9%	30.6%	31.0%	30.6%	32.1%
Interest coverage	6.7	5.4	6.3	6.9	4.2

Table of Contents

ITEM 7
Management's Discussion and Analysis (MD&A) of Financial Condition and Results of Operations
TABLE OF CONTENTS

Refer to Cautionary Statement Regarding Forward-Looking Statements on page 1.

Table of Contents
INFINITY PROPERTY AND CASUALTY CORPORATION 10-K
Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview
Gross written premium decreased 0.3% in 2017 compared with 2016 primarily from premium adjustments in California of $22.2 million during the first six months of 2017. Refer to Note 13 - Legal and Regulatory Proceedings for a more detailed discussion of the premium adjustments. Refer to Results of Operations – Underwriting – Premium for a more detailed discussion of our gross written premium.
Net earnings and diluted earnings per share for the year ended December 31, 2017, were $45.4 million and $4.10, respectively, compared with $43.1 million and $3.88, respectively, for 2016. The increase in net earnings and diluted earnings per share for the year ended December 31, 2017, was primarily due to an increase in underwriting income as the result of a decrease in the accident year combined ratio from 98.4% at December 31, 2016, to 96.5% at December 31, 2017. Partially offsetting this was a $10.2 million deferred tax asset write-off resulting from the impact of the enacted tax reform.
Net catastrophe losses during 2017 were $17.4 million compared with $6.9 million during 2016.
Included in net earnings for the year ended December 31, 2017, was $12.0 million ($18.5 million pre-tax) of favorable development on prior accident year loss and LAE reserves. This development was primarily due to a decrease in ultimate severity estimates in California related to bodily injury and material damage coverages for accident year 2016 and a decrease in ultimate frequency estimates in Florida related to material damage and uninsured motorist bodily injury coverage for accident year 2016. This favorable development was partially offset by increases in ultimate severity estimates in bodily injury coverages in our commercial auto product. This compares with $15.6 million ($24.0 million pre-tax) of favorable development for 2016. The following table displays GAAP combined ratio results by accident year developed through December 31, 2017:

	Accident Year Combined Ratio Developed Through					Prior Accident Year (Favorable)/Unfavorable Development ($ in millions)	
	Dec. 2016	Mar. 2017	Jun. 2017	Sep. 2017	Dec. 2017	YTD 2017	YTD 2017
Accident year							
Prior							$ 0.1
2008	91.1%	91.1%	91.1%	91.1%	91.1%	0.0 %	0.1
2009	92.4%	92.4%	92.5%	92.5%	92.6%	0.2 %	1.7
2010	99.3%	99.3%	99.3%	99.3%	99.3%	0.1 %	0.7
2011	99.8%	99.9%	99.9%	99.9%	99.9%	0.1 %	0.6
2012	99.6%	99.5%	99.4%	99.4%	99.4%	(0.2)%	(2.5)
2013	94.8%	94.9%	94.9%	94.8%	94.8%	0.0 %	0.1
2014	94.4%	94.4%	94.5%	94.5%	94.5%	0.2 %	2.3
2015	98.3%	98.4%	98.3%	98.5%	98.5%	0.2 %	2.2
2016	98.4%	97.8%	97.4%	97.0%	96.7%	(1.7)%	(23.9)
							$ (18.5)

Refer to Results of Operations – Underwriting – Profitability for a more detailed discussion of our underwriting results.
Pre-tax net investment income increased from $35.5 million in 2016 to $37.3 million in 2017 primarily due to an increase in make whole interest and bond issuer tender offers during 2017 totaling $1.0 million and an increase in interest income on cash equivalents due to an increase in yield.
Our book value per share increased 4.0% from $63.31 at December 31, 2016, to $65.87 at December 31, 2017. This increase was primarily due to net earnings partially offset by shareholder dividends and share repurchases.
Critical Accounting Policies

The preparation of financial statements requires management to make estimates and assumptions that can have a significant effect on amounts reported in the financial statements. As more information becomes known, these estimates and assumptions could change and thus impact amounts reported in the future. We believe that the establishment of insurance reserves, the determination of “other-than-temporary” impairment on investments, accruals for litigation and valuation of goodwill are the areas where the degree of judgment required to determine amounts recorded in the financial statements makes the accounting policies critical.

Table of Contents
INFINITY PROPERTY AND CASUALTY CORPORATION 10-K
Management's Discussion and Analysis of Financial Condition and Results of Operations

Insurance Reserves

Insurance reserves, or unpaid losses and LAE, are our best estimate of the ultimate amounts that will be paid for (i) all claims that have been reported up to the date of the current accounting period but have not yet been paid; (ii) all claims that have occurred but have not yet been reported to us ("incurred but not reported" or IBNR); and (iii) unpaid claim settlement expenses.

Incurred but not reported (IBNR) reserves are established for the quarter and year-end based on a quarterly reserve analysis by our actuarial staff. Various standard actuarial tests are applied to subsets of the business at a state, product and coverage basis. Included in the analyses are the following:

- Paid and incurred extrapolation methods utilizing paid and incurred loss development to predict ultimate losses;
- Paid and incurred frequency and severity methods utilizing paid and incurred claims count development and paid and incurred claims cost development to predict ultimate average frequency (claims count per policy or auto insured) or ultimate average severity (cost per claim); and
- Paid and incurred Bornhuetter-Ferguson methods adding expected development to actual paid or incurred experience to project ultimate losses.

For each subset of the business evaluated, each test generates a point estimate based on development factors applied to known paid and incurred losses and claim counts. Selections of development factors are based on historical loss development patterns with adjustment based on professional actuarial judgment where anticipated development patterns vary from those seen historically. Deviations from historical loss development patterns may occur due to changes in items such as claims settlement and payment practices, business mix, coverage limits and deductibles, inflation trends in auto repair and medical costs and legal and regulatory trends affecting claims settlements. This estimation of IBNR requires selection of hundreds of such factors. A single point estimate for the subset being evaluated is then selected from the results of various tests, based on a combination of simple averages of the point estimates of the various tests and selections based on professional actuarial judgment.

Estimating the liability for unpaid losses and LAE is inherently judgmental and is influenced by factors that are subject to significant variation. When possible, we make quantitative and qualitative modifications to, or selections of, such factors where deviations from historical trends in these key areas exist. We analyze the adequacy of reserves using actuarial data and analytical reserve development techniques, including projections of ultimate paid losses, to determine the ultimate amount of reserves. The list of historical trends provided above are non-exhaustive examples of major factors that we take into account in developing these estimates.

We review loss reserve adequacy quarterly by accident year at a state, product and coverage level. We adjust reserves as additional information becomes known and reflect such adjustments in current year operations.

During each quarterly review by the internal actuarial staff, using the additional information obtained with the passage of time, factor selections are updated, which in turn adjust the ultimate loss estimates and held IBNR reserves for the subset of the business and accident periods affected by such updates. The actuarial staff also performs various tests to estimate ultimate average severity and frequency of claims. Severity represents the average cost per claim and frequency represents the number of claims per auto or per policy. As an overall review, the staff then evaluates for reasonableness loss and LAE ratios by accident year by state, by product and by coverage.

Factors that can significantly affect actual frequency include, among others, changes in weather, driving patterns or trends and class of driver. Changes in claims settlement and reserving practices can affect estimates of average frequency and severity. Auto repair and medical cost inflation, jury awards and changes in policy limit profiles can affect loss severity. Estimation of LAE reserves is subject to variation from factors such as the use of outside adjusters, frequency of lawsuits, claims staffing and experience levels.

We believe that our relatively low average policy limit and concentration on the nonstandard auto driver classification generally help stabilize fluctuations in frequency and severity. For example, approximately 92% of our policies include only the state-mandated minimum policy limits for bodily injury, which somewhat mitigates the challenge of estimating average severity. These low limits tend to reduce the exposure of the loss reserves on this coverage to

medical cost inflation on severe injuries since the minimum policy limits will limit the total payout.
Ultimate loss estimates, excluding extra-contractual obligation (ECO) losses, usually experience the greatest adjustment within the first 12 to 18 months after the accident year. Accordingly, the highest degree of uncertainty is associated with reserves for the current accident year because the current accident year contains the greatest proportion of losses that have not been reported or settled, and we must estimate these elements as of the current reporting date. The proportion of losses with these characteristics typically diminishes in subsequent years.
As compared with loss and LAE reserves held at December 31, 2017, our best estimate of reserve ranges using indicated results from utilized estimates of loss and LAE could range from a deficiency of 8%, or $55.5 million, to a redundancy of 9%, or $59.9

million. These ranges do not present a forecast of future redundancy or deficiency since actual development of future losses on current loss reserves may vary materially from those estimated in the year-end 2017 reserve tests. Reserves recorded are our best estimate of the ultimate amounts that will be paid.

As noted above, the highest degree of uncertainty is associated with reserves in the first 12 to 18 months. The following table displays the accident year combined ratios developed through December 31, 2017, for the four most recent accident years along with the potential combined ratios based on the low and high outcomes of the loss and LAE tests utilized:

	Combined Ratios Developed Through December 31, 2017		
	Low	As Reported	High
Accident year			
2014	94.1%	94.5 %	94.9%
2015	97.7%	98.5 %	99.2%
2016	96.1%	96.7 %	97.3%
2017	94.5%	96.5 %	98.5%

ECO losses represent estimates of losses incurred from actual or threatened litigation by claimants alleging improper handling of claims by us, which are commonly known as “bad faith” claims. Oftentimes, the onset of such litigation, subsequent discovery, settlement discussions, trial and appeal may occur several years after the date of the original claim. Because of the infrequent nature of such claims, we accrue a liability for each case based on the facts and circumstances in accordance with the Loss Contingency topic of the FASB Accounting Standards Codification, which requires that such loss be probable and estimable. As such, no reserve is permissible for IBNR for threatened litigation yet to occur on accidents with dates prior to the balance sheet date. Consequently, the effect of setting accruals for such items likely will result in unfavorable reserve development in the following reserve tables.

Calendar year losses incurred for ECOs, net of reinsurance, over the past five years have ranged from $1.1 million to $4.5 million, averaging $2.7 million per year. Calendar year losses incurred for ECOs, gross of reinsurance, over the past five years have ranged from $1.1 million to $16.6 million, averaging $5.1 million per year. Net losses for 2017, 2016 and 2015 have been $4.5 million, $1.1 million and $2.4 million, respectively.

We find it useful to evaluate accident year loss and LAE ratios by calendar year to monitor reserve development. The following table presents, by accident year, loss and LAE ratios (including IBNR):

	Accident Year Loss and LAE Ratios Through Calendar Year End									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Accident year										
2008	73.5%	71.9%	69.9%	69.6%	69.4%	69.2%	69.0%	69.0%	68.9%	68.9%
2009		74.2%	71.0%	71.0%	70.7%	70.4%	70.4%	70.5%	70.5%	70.7%
2010			75.1%	76.7%	76.8%	76.9%	76.5%	76.7%	76.6%	76.6%
2011				74.9%	77.3%	77.6%	77.4%	77.5%	77.1%	77.2%
2012					78.2%	78.7%	79.0%	79.0%	78.5%	78.3%
2013						77.9%	77.0%	75.6%	75.0%	75.0%
2014							76.9%	75.8%	74.8%	75.0%
2015								79.1%	79.7%	79.8%
2016									80.5%	78.8%
2017										78.2%

Table of Contents
INFINITY PROPERTY AND CASUALTY CORPORATION 10-K
Management's Discussion and Analysis of Financial Condition and Results of Operations

The following table summarizes the effect on each calendar year of reserve re-estimates, net of reinsurance, for each of the accident years presented. The total of each column details the amount of reserve re-estimates made in the indicated calendar year and shows the accident years to which the re-estimates are applicable.

Calendar Year Impact of Reserve Development by Accident Year
(Favorable) Unfavorable Reserve Development

($ in millions)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Accident year										
Prior	$(29.4)	$(50.5)	$(27.9)	$(7.1)	$(5.3)	$(1.9)	$(1.8)	$(0.2)	$0.5	$0.1
2008		(14.8)	(18.6)	(2.8)	(1.6)	(2.0)	(1.6)	(0.7)	(0.2)	0.1
2009			(27.5)	0.1	(2.6)	(3.0)	0.8	0.3	0.3	1.7
2010				14.3	1.1	0.5	(3.4)	1.8	(1.4)	0.7
2011					24.7	2.8	(2.0)	0.9	(3.3)	0.6
2012						6.4	2.5	0.1	(5.3)	(2.5)
2013							(11.9)	(17.1)	(9.1)	0.1
2014								(14.0)	(13.1)	2.3
2015									7.7	2.2
2016										(23.9)
Total	$(29.4)	$(65.4)	$(73.9)	$4.5	$16.2	$2.9	$(17.4)	$(28.9)	$(24.0)	$(18.5)

The $18.5 million favorable reserve development during the twelve months ended December 31, 2017, was primarily due to decreases in ultimate frequency and severity estimates from the bodily injury and material damage coverages in California for accident year 2016 and decreases in ultimate frequency and severity estimates from material damage coverages along with decreases in severity estimates from uninsured motorist bodily injury coverage in Florida for accident year 2016. This favorable development was partially offset by increases in ultimate severity estimates in bodily injury coverages in our commercial auto product.

The $24.0 million favorable reserve development during the twelve months ended December 31, 2016, was primarily due to decreases in severity estimates in Florida bodily injury and personal injury protection coverages related to accident years 2015 and prior, partially offset by increases in severity estimates in California material damage and bodily injury coverages as well as bodily injury coverages in our commercial auto product, all related to accident year 2015.

The $28.9 million favorable reserve development during the twelve months ended December 31, 2015, was primarily due to decreases in severity estimates in Florida bodily injury coverages and California bodily injury loss adjustment expense estimates, all related to accident years 2013 and 2014.

Other-than-Temporary Losses on Investments

The determination of whether unrealized losses on investments are “other-than-temporary” requires judgment based on subjective as well as objective factors. Factors we considered and resources we used in our determination include:

- whether the unrealized loss is credit-driven or a result of changes in market interest rates;
- the length of time the security’s market value has been below its cost;
- the extent to which fair value is less than cost basis;
- the intent to sell the security;
- whether it is more likely than not that there will be a requirement to sell the security before its anticipated recovery;
- historical operating, balance sheet and cash flow data contained in issuer SEC filings;
- issuer news releases;
- near-term prospects for improvement in the issuer and/or its industry;
- industry research and communications with industry specialists; and
- third-party research and credit rating reports.

We regularly evaluate our investment portfolio for potential impairment by evaluating each security position that has either of the following: a fair value of less than 95% of its book value or an unrealized loss that equals or exceeds $100,000. Since accurately predicting if or when a specific security will become other-than-temporarily impaired is not possible, total impairment charges could be material to the results of operations in a future period.

For fixed maturity securities that are other-than-temporarily impaired, we assess our intent to sell and the likelihood that we will be required to sell the security before recovery of our amortized cost. If a fixed maturity security is considered other-than-temporarily

Table of Contents

impaired but we do not intend to and are not more than likely to be required to sell the security before our recovery to amortized cost, the amount of the impairment is separated into a credit loss component and the amount due to all other factors ("non-credit component"). The excess of the amortized cost over the present value of the expected cash flows determines the credit loss component of an impairment charge on a fixed maturity security. The present value is determined using the best estimate of cash flows discounted at (i) the effective interest rate implicit at the date of acquisition for non-structured securities; or (ii) the book yield for structured securities. The techniques and assumptions for determining the best estimate of cash flows vary depending on the type of security. We recognize the credit loss component of an impairment charge in net earnings and the non-credit component in accumulated other comprehensive income. If we intend to sell or will, more likely than not, be required to sell a security, the entire amount of the impairment is treated as a credit loss.

Accruals for Litigation

We continually evaluate potential liabilities and reserves for litigation using the criteria established by the Loss Contingency topic of the FASB Accounting Standards Codification. Under this guidance, we may only record reserves for loss if the likelihood of occurrence is probable and the amount is reasonably estimable. We consider each legal action and record reserves for losses in accordance with this guidance. We believe the current assumptions and other considerations used to estimate potential liability for litigation are appropriate. Certain claims and legal actions have been brought against us for which, under the rules described above, no loss has been accrued. While it is not possible to know with certainty the ultimate outcome of these claims or lawsuits, we do not expect them to have a material effect on our financial condition or liquidity. Refer to Note 13 – Legal and Regulatory Proceedings to the Consolidated Financial Statements for a discussion of our material legal proceedings.

Goodwill

In accordance with the Goodwill topic of the FASB Accounting Standards Codification, we perform impairment test procedures for goodwill on an annual basis. These procedures require us to calculate the fair value of goodwill, compare the result to our carrying value and record the amount of any shortfall as an impairment charge.

We performed this test as of October 1, 2017, using a variety of methods, including estimates of future discounted cash flows and comparisons of our market value to that of our major competitors. Our cash flow projections rely on assumptions that are subject to uncertainty, including premium growth, loss and LAE ratios, interest rates and capital requirements.

The October 1, 2017, test results indicated that the fair value of our goodwill exceeded our carrying value and therefore no impairment charge was required at that date. Additionally, there was no indication of impairment at December 31, 2017.

Liquidity and Capital Resources

Ratios

The National Association of Insurance Commissioners' (NAIC) model law for risk-based capital (RBC) provides formulas to determine the amount of capital that an insurance company needs to ensure that it has an acceptable expectation of not becoming financially impaired. At December 31, 2017, the capital ratios of all our insurance subsidiaries exceeded the RBC requirements.

Sources of Funds

We are a holding company and our insurance subsidiaries conduct our operations. Accordingly, we will have continuing cash needs for administrative expenses, the payment of interest on borrowings, shareholder dividends, share repurchases and taxes.

Funds to meet expenditures at the holding company come primarily from dividends and tax payments from the insurance subsidiaries as well as cash and investments held by the holding company. The ordinary dividend capacity and total payment activity, including extraordinary dividends, of our insurance companies for the two most recent years, as well as the dividend capacity for the upcoming year, are shown in the following table ($ in thousands):

	2018	2017	2016

Maximum ordinary dividends available to Infinity	$67,863	$59,343	$59,623
Dividends paid from subsidiaries to parent	N/A	66,000	60,000

As of December 31, 2017, the holding company had $171.0 million of cash and investments. In 2018, our insurance subsidiaries may pay us up to $67.9 million in ordinary dividends without prior regulatory approval. Rating agency capital requirements, among other factors, will be considered when determining the actual amount of dividends paid in 2018.

Our insurance subsidiaries generate liquidity to satisfy their obligations, primarily by collecting and investing premiums in advance of paying claims and generating investment income on their $1.4 billion investment portfolio. Our insurance subsidiaries generated positive cash flows from operations of approximately $134.2 million in 2017, $114.0 million in 2016 and $80.2 million in 2015.

At December 31, 2017, we had $275 million principal outstanding of 5.0% senior notes due September 2022 (the "5.0% Senior Notes"). The 5.0% Senior Notes accrue interest at 5.0%, payable semiannually each March and September. Refer to Note 4 – Long-Term Debt to the Consolidated Financial Statements for more information on our long-term debt.

In August 2017 we renewed our agreement for a $50 million three-year revolving credit facility (the "Credit Agreement") that requires us to meet certain financial and other covenants. We are currently in compliance with all covenants under the Credit Agreement, and as of December 31, 2017, there were no borrowings outstanding against it.

On February 29, 2016, we filed a "shelf" registration statement with the Securities and Exchange Commission registering securities, and as long as it remains effective, it will allow us to sell any combination of senior or subordinated debt securities, common stock, preferred stock, warrants, depositary shares, purchase contracts and units in one or more offerings should we choose to do so in the future. This shelf registration statement expires March 1, 2019.

Uses of Funds

Our quarterly dividend is currently $0.58 per share. At this current amount, our 2018 annualized dividend payments will be approximately $25.4 million.

Our Board of Directors previously authorized a share and debt repurchase program. On November 4, 2014, our Board of Directors increased the authority to a total of $75 million and extended the date to execute the program to December 31, 2016, from December 31, 2014. On November 1, 2016, our Board approved the extension of the date to execute the program from December 31, 2016, to December 31, 2017, and on November 2, 2017, approved an extension to December 31, 2018. During 2017 we repurchased 133,306 shares at an average cost, excluding commissions, of $92.54 per share. As of December 31, 2017, we had $22.5 million of authority remaining under this program.

We believe that cash balances, cash flows generated from operations or borrowings, and maturities and sales of investments are adequate to meet our future liquidity needs and those of our insurance subsidiaries.

Contractual Obligations

Our contractual obligations and those of our insurance subsidiaries as of December 31, 2017, were ($ in thousands):

Due in	Long-Term Debt & Interest	Operating Leases	Capital Leases	Loss and LAE Reserves (a)	Post-retirement Benefit Payments (b)	Total
2018	$ 13,750	$ 4,218	$717	$427,913	$ 266	$446,864
2019 - 2020	27,500	4,919	1,037	216,065	559	250,080
2021 - 2022	302,500	2,809	202	43,628	567	349,706
2023 and after	0	523	0	27,492	1,627	29,642
Total	$ 343,750	$ 12,469	$1,956	$715,098	$ 3,020	$1,076,293

(a) We base the payout pattern for reserves for losses and LAE upon historical payment patterns and they do not represent actual contractual obligations. The timing and amounts ultimately paid will vary from these estimates, as discussed above under Critical Accounting Policies and in Note 1 – Significant Reporting and Accounting Policies to the Consolidated Financial Statements.

(b) The payments for post-retirement benefits do not represent actual contractual obligations. The payments presented represent the best estimate of future contributions.

18

Investments

General

Our Investment Committee, which is composed exclusively of independent directors, has approved our investment guidelines. The guidelines specifically address overall investment objectives, permissible assets, prohibited assets, permitted exceptions to the guidelines and credit quality.

We engage three unaffiliated money managers for our fixed income portfolio and we own a Vanguard exchange-traded fund designed to track the FTSE Global All Cap Index for our equity portfolio. The investment managers conduct, in accordance with our investment guidelines, all of our investment purchases and sales. Our Chief Financial Officer and the Investment Committee, at least quarterly, review the performance of the money managers and compliance with our investment guidelines. National banks unaffiliated with the money managers maintain physical custody of securities.

Our consolidated investment portfolio at December 31, 2017, contained $1.4 billion in fixed maturity securities, $96.0 million in equity securities and $2.5 million of short-term investments, all carried at fair value with unrealized gains and losses reported in accumulated other comprehensive income, a separate component of shareholders' equity, on an after-tax basis. At December 31, 2017, we had pre-tax net unrealized gains of $1.2 million on fixed maturities and pre-tax net unrealized gains of $27.2 million on equity securities. Combined, the pre-tax net unrealized gain increased by $17.3 million for the twelve months ended December 31, 2017.

Approximately 90.5% of our fixed maturity portfolio at December 31, 2017, was rated “investment grade” (credit rating of AAA to BBB) by nationally recognized rating agencies. The average credit rating of our fixed maturity portfolio was AA- at December 31, 2017. Investment grade securities generally bear lower yields and lower degrees of risk than those that are unrated or non-investment grade. We believe that a high quality investment portfolio is more likely to generate stable and predictable investment returns.

Because we carry all of these securities at fair value in the Consolidated Balance Sheets, there is virtually no effect on liquidity or financial condition upon the sale and ultimate realization of unrealized gains and losses. The average duration of our fixed maturity portfolio was 3.3 years at December 31, 2017.

Fair values of instruments are based on (i) quoted prices in active markets for identical assets (Level 1); (ii) quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which all significant inputs are observable in active markets (Level 2); or (iii) valuations derived from valuation techniques in which one or more significant inputs are unobservable in the marketplace (Level 3).

Our Level 1 securities are U.S. Treasury securities, an exchange-traded fund and equity securities held in a rabbi trust. Our Level 2 securities are comprised of securities whose fair value was determined using observable market inputs. Our Level 3 securities are comprised of (i) securities for which there is no active or inactive market for similar instruments; (ii) securities whose fair value is determined based on unobservable inputs; and (iii) securities that nationally recognized statistical rating organizations do not rate.

A third party nationally recognized pricing service provides the fair value of securities in Level 2. We periodically review the third party pricing methodologies used by our primary independent pricing service to verify that prices are determined in accordance with fair value guidance in U.S. GAAP, including the use of observable market inputs, and to ensure that assets are properly classified in the fair value hierarchy.

Further, for all Level 2 securities, we compare the market price from the primary independent third party pricing service that is used to value the security with market prices from recent sales activity or, for those securities with no recent sales activity, with prices from another independent third party pricing service or non-binding broker quotes. This comparison is performed in order to determine if the price obtained from the primary independent pricing service is a reasonable price to use in our financial statements. We made no adjustments to the prices obtained from the primary independent pricing service as a result of this comparison.

Summarized information for our investment portfolio at December 31, 2017, follows ($ in thousands):

	Amortized Cost	Fair Value	% of Total Fair Value	
Fixed maturities:				
U.S. government	$61,196	$60,528	3.9	%
State and municipal	492,442	494,211	32.1	%
Mortgage- and asset-backed:				
Residential mortgage-backed securities	353,277	350,992	22.8	%
Commercial mortgage-backed securities	31,204	30,569	2.0	%
Asset-backed securities (ABS):				
Auto loans	29,450	29,362	1.9	%
Credit card	22,593	22,551	1.5	%
Equipment leases	4,961	4,958	0.3	%
All other	5,548	5,548	0.4	%
Total ABS	62,552	62,418	4.1	%
Total mortgage- and asset-backed	447,032	443,979	28.8	%
Corporates				
Investment grade	308,515	309,403	20.1	%
Non-investment grade	130,693	132,986	8.6	%
Total corporates	439,208	442,390	28.7	%
Total fixed maturities	1,439,878	1,441,107	93.6	%
Equity securities	68,812	96,004	6.2	%
Short-term investments	2,541	2,541	0.2	%
Total investment portfolio	$1,511,232	$1,539,653	100.0	%

The following table presents the returns, gross of investment expenses, of our investment portfolios based on quarterly investment balances as reflected in the financial statements, excluding equities invested in a rabbi trust:

	Twelve months ended December 31,					
	2017		2016		2015	
Return on fixed income securities:						
Excluding realized gains and losses	2.6	%	2.6	%	2.6	%
Including realized gains and losses	2.4	%	2.6	%	2.7	%
Return on equity securities:						
Excluding realized gains and losses	2.9	%	2.9	%	2.8	%
Including realized gains and losses	10.5	%	6.6	%	5.4	%
Return on all investments:						
Excluding realized gains and losses	2.5	%	2.5	%	2.5	%
Including realized gains and losses	2.7	%	2.7	%	2.7	%

Receivable for Securities Sold

The $1.7 million and $0.8 million balances in receivable for securities sold at December 31, 2017, and December 31, 2016, respectively, represents fixed income securities sold in the normal course of business that had not settled prior to the end of their respective years.

Payable for Securities Purchased

The $5.6 million and $13.9 million balances in payable for securities purchased at December 31, 2017, and December 31, 2016, respectively, represent fixed income securities and treasury stock purchased in the normal course of business that had not settled prior to the end of their respective years.

Exposure to Market Risk

Market risk represents the potential economic loss arising from adverse changes in the fair value of financial instruments. Our exposures to market risk relate principally to our investment portfolio, which is exposed primarily to interest rate risk and credit risk and, to a lesser extent, equity price risk.

Our fixed maturity portfolio is comprised of substantially all fixed rate investments with primarily short-term and intermediate-term maturities. We strive to maintain a "laddered" portfolio, with maturities and prepaid principal spread across the maturity spectrum. This portfolio composition allows flexibility in reacting to fluctuations of interest rates. In addition, higher market rates available for new funds available for investment partially mitigate the risk of loss in fair value. We manage the portfolios of our insurance companies to achieve an adequate risk-adjusted return while maintaining sufficient liquidity to meet policyholder obligations.

Interest Rate Risk

The fair values of our fixed maturity investments fluctuate in response to changes in market interest rates. Increases and decreases in prevailing interest rates generally translate into decreases and increases, respectively, in fair values of those instruments. Additionally, the creditworthiness of the issuer, prepayment options, relative values of alternative investments, the liquidity of the instrument and other general market conditions may affect fair values of interest rate sensitive instruments.

The following table summarizes the estimated effects of hypothetical increases and decreases in interest rates resulting from parallel shifts in market yield curves on our fixed maturity portfolio and long-term debt. We assume that we will realize the effects immediately upon the change in interest rates. The hypothetical changes in market interest rates do not reflect best or worst case scenarios. Variations in market interest rates could produce significant changes in the timing of repayments due to prepayment options available. For these reasons, actual results might differ from those reflected in the table.

($ in thousands)	Sensitivity to Instantaneous Interest Rate Changes (basis points)						
	(200)	(100)	(50)	—	50	100	200
Fair value of fixed maturity portfolio	$1,533,583	$1,488,956	$1,465,047	$1,441,107	$1,417,139	$1,393,141	$1,345,059
Fair value of long-term debt	316,513	303,348	297,008	290,824	284,790	278,904	267,557

The following table provides information about our fixed maturity investments at December 31, 2017, which are sensitive to interest rate risk. The table shows expected principal cash flows by expected maturity date for each of the five subsequent years and collectively for all years thereafter. Callable bonds and notes are included based on call date or maturity date depending upon which date produces the most conservative yield. Mortgage-Backed Securities (MBS) and sinking fund issues are included based on maturity year adjusted for expected payment patterns. The cash flows presented take into consideration historical relationships of market yields and prepayment rates. However, the actual prepayment rate may differ from historical trends resulting in actual principal cash flows that differ from those presented below.

($ in thousands)	Expected Principal Cash Flows MBS and ABS only	Excluding MBS and ABS	Total	Maturing Book Yield
For the twelve months ending December 31,				
2018	$53,241	$95,915	$149,155	2.4
2019	51,874	197,042	248,916	2.3
2020	54,011	198,579	252,590	2.5
2021	42,207	139,544	181,751	2.7
2022	44,766	159,758	204,524	2.6
Thereafter	186,212	151,217	337,429	2.9
Total	$432,310	$942,056	$1,374,365	2.6

Credit Risk

We manage credit risk by diversifying our portfolio to avoid concentrations in any single industry group or issuer and by limiting investments in securities with lower credit ratings. The largest investment in any one issuer, excluding the U.S. Government or government-sponsored entities, is $13.2 million or 0.9% of the fixed income investment portfolio, and the top five investments make up 3.9% of the fixed income portfolio. All of the fixed maturities owned at December 31, 2017, were producing their stated rate of investment income.

We categorize securities by rating based upon available ratings issued by Moody's, Standard & Poor's or Fitch. If all three ratings are available but not equivalent, we exclude the lowest rating and the lower of the remaining ratings is used. If ratings are only available from two agencies, the lowest is used. This methodology is consistent with that used by the major bond indices.

The following table presents the credit rating and fair value of our fixed maturity portfolio by major security type at December 31, 2017, ($ in thousands):

	Rating AAA	AA	A	BBB	Non-investment Grade	Total Fair Value	% of Total Exposure
U.S. government	$60,528	$0	$0	$0	$0	$60,528	4.2 %
State and municipal	143,597	261,000	86,126	0	3,488	494,211	34.3 %
Mortgage- and asset-backed	424,015	10,355	6,128	3,481	0	443,979	30.8 %
Corporates	1,695	24,399	154,782	128,527	132,986	442,390	30.7 %
Total fair value	$629,835	$295,754	$247,037	$132,007	$136,474	$1,441,107	100.0 %
% of total fair value	43.7 %	20.5 %	17.1 %	9.2 %	9.5 %	100.0 %	

Equity Price Risk

Equity price risk is the potential economic loss from adverse changes in equity security prices. Our exposure to equity price risk is limited, as our equity investments comprise only 6.2% of our total investment portfolio. At December 31, 2017, the fair value of our equity portfolio was $96.0 million.

Results of Operations

Underwriting

Premium

Our net earned premium was as follows ($ in thousands):

	Twelve months ended December 31,			
	2017	2016	Change	% Change
Gross written premium:				
Personal Auto	1,217,384	1,240,037	(22,653)	(1.8)%
Commercial Auto	163,389	145,272	18,117	12.5 %
Classic Collector	16,520	16,105	415	2.6 %
Total gross written premium	1,397,294	1,401,414	(4,121)	(0.3)%
Ceded reinsurance	(10,441)	(8,955)	(1,486)	16.6 %
Net written premium	1,386,853	1,392,459	(5,606)	(0.4)%
Change in unearned premium	(15,517)	(795)	(14,722)	NM
Net earned premium	$1,371,336	$1,391,664	$(20,328)	(1.5)%

	Twelve months ended December 31,			
	2016	2015	Change	% Change
Gross written premium:				
Personal Auto	1,240,037	1,246,492	(6,455)	(0.5)%
Commercial Auto	145,272	126,036	19,237	15.3 %
Classic Collector	16,105	15,339	766	5.0 %
Total gross written premium	1,401,414	1,387,866	13,548	1.0 %