INFINITY PROPERTY & CASUALTY CORP
Form 10-K/A
April 02, 2004

Table of Contents

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

FORM 10-K/A

Amendment No. 1 to Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 2003	**Commission File No. 0-50167**

INFINITY PROPERTY AND CASUALTY CORPORATION

Incorporated under the Laws of Ohio	**IRS Employer I.D. No. 03-0483872**

2204 Lakeshore Drive, Birmingham, Alabama 35209
(205) 870-4000

Securities Registered Pursuant to Section 12(b) of the Act: None

Securities Registered Pursuant to Section 12(g) of the Act: Common Stock, no par value

Other securities for which reports are submitted pursuant to Section 15(d) of the Act: None

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, and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and need 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 an accelerated filer. Yes [ ] No [X]

As of March 1, 2004, there were 20,654,787 shares of the Registrant s Common Stock outstanding. The aggregate market value of voting stock held by non-affiliates of the registrant was $285,262,096 as of June 30, 2003.

Documents Incorporated by Reference

Portions of the registrant s proxy statement for the annual meeting of shareholders to be held on May 25, 2004, 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 -	Business	2
	Introduction	2
	Operations	3
	Investments	11
	Regulatory Environment	12
	Risk Factors	13
Item 2 -	Properties	17
Item 3 -	Legal Proceedings	17
Item 4 -	Submission of Matters to a Vote of Security Holders	18
Part II		
Item 5 -	Market for Registrant s Common Equity and Related Stockholder Matters	18
Item 6 -	Selected Financial Data	19
Item 7 -	Management s Discussion and Analysis of Financial Condition and Results of Operations	20
Item 7A -	Quantitative and Qualitative Disclosures About Market Risk	32
Item 8 -	Financial Statements and Supplementary Data	33
Item 9 -	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	(a)
Item 9A -	Controls and Procedures	33
Part III		
Item 10 -	Directors and Executive Officers of the Registrant	33
Item 11 -	Executive Compensation	34
Item 12 -	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	34
Item 13 -	Certain Relationships and Related Transactions	34
Item 14 -	Principal Accountant Fees and Services	34
Part IV		
Item 15 -	Exhibits, Financial Statement Schedules and Reports on Form 8K	64

EX-4.1 INDENTURE DATED FEBRUARY 17, 2004
EX-4.2 EXCHANGE AND REGISTRATION RIGHTS
EX-10.3 AUTOMOBILE PHYSICAL DAMAGE VARIABLE
EX-10.23 LEASE BETWEEN COLONIAL PROP. AND INFINITY
EX-10.24 TAX ALLOCATION AGREEMENT
EX-10.25 PURCHASE AGREEMENT DATED FEBRUARY 11,2004
EX-10.28 EMPLOYMENT AGREEMENT FOR JAMES R. GOBER
EX-10.29 EMPLOYMENT AGREEMENT FOR SAMUEL J. SIMON
EX-10.30 EMPLOYMENT AGREEMENT FOR ROGER SMITH
EX-10.31 EMPLOYMENT AGREEMENT FOR JOHN R. MINER
EX-21 SUBSIDIARIES OF THE REGISTRANT
EX-23 CONSENT OF INDEPENDENT AUDITORS
EX-31.1 SECTION 302 CERTIFICATION OF THE CEO
EX-31.2 SECTION 302 CERTIFICATION OF THE CFO
EX-32 SECTION 302 CERTIFICATION OF THE CEO/CFO

(a) The response to this Item is none .

1

Explanatory Note

This Amendment to Form 10-K includes the text of the Form 10-K in its entirety and is being filed solely for the purpose of re-filing Exhibits 31.1 and 31.2 for the purpose of correcting typographical errors therein. There are no changes to the audited financial statements. This filing amends only the items specified above and does not otherwise update the disclosures in the Form 10-K as originally filed and does not reflect events occurring after the original filing of the Form 10-K.

Table of Contents

FORWARD LOOKING STATEMENTS

This Form 10-K, chiefly in Items 1, 3, and 7, contains certain forward-looking statements that are subject to numerous assumptions, risks and uncertainties. The Private Securities Litigation Reform Act of 1995 provides safe harbor for forward-looking statements. Some of the forward-looking statements can be identified by the use of forward-looking words such as anticipates , believes , estimates , expects , intends , plans , seeks , could , may , should , will , or the negative version of those words or other comparable terminology. Examples of such forward-looking statements include statements relating to: expectations concerning market and other conditions, future premiums, revenues, earnings and investment activities, expected losses, rate increases, improved loss experience and expected expense savings resulting from consolidation of the operations of the Company s subsidiaries.

Actual results could differ materially from those expected by the Company depending on certain risks and uncertainties including but not limited to:

changes in economic conditions and financial markets (including interest rates);

the adequacy or accuracy of its pricing methodologies;

the presence of competitors with greater financial resources and the impact of competitive pricing;

the ability to obtain timely approval for requested rate changes;

judicial and regulatory developments adverse to the automobile insurance industry;

the outcome of pending litigation against the Company;

weather conditions (including the severity and frequency of storms, hurricanes, snowfalls, hail and winter conditions);

changes in driving patterns and loss trends;

acts of war and terrorist activities; and

the challenges posed by consolidating the operations of its insurance subsidiaries.

The forward-looking statements herein are made only as of the date of this report. The Company assumes no obligation to publicly update any forward-looking statements.

PART I

ITEM 1

Business

Introduction

Infinity Property and Casualty Corporation (Infinity) is a holding company, which, through subsidiaries, provides personal automobile insurance on a national level with emphasis on nonstandard auto insurance. Infinity employs approximately 2,200 persons. Its address is 2204 Lakeshore Drive, Birmingham, Alabama 35209; its phone number is (205) 870-4000. SEC filings, news releases and other information may be accessed free of charge through Infinity s Internet site at: www.ipacc.com.

Infinity was incorporated as an Ohio corporation in September 2002 as an indirect wholly owned subsidiary of American Financial Group, Inc. (AFG) to acquire and conduct, as a separate public company, AFG s personal lines business written through independent agents. On December 31, 2002, AFG transferred to Infinity all of the issued and outstanding capital stock of the following personal auto insurance subsidiaries: Atlanta Casualty Company, Infinity Insurance Company, Leader Insurance Company and Windsor Insurance Company (collectively the NSA Group). In exchange, AFG received all of the issued and outstanding shares of Infinity Common Stock and a $55 million promissory note. In February 2003, AFG sold 12.5 million shares (61%) of Infinity in an initial public offering and in December of 2003 sold its remaining interest (7.9 million shares) in a secondary public offering.

Table of Contents

Business (continued)

As of January 1, 2003, Infinity acquired the in-force personal insurance business written through independent agents (the Assumed Agency Business) by AFG s principal property and casualty subsidiary, Great American Insurance Company (GAI). Because this business is not a separate legal entity, the acquisition was effected through a reinsurance agreement under which an Infinity subsidiary assumed the inforce business, services the policyholders and handles the claims. GAI, in turn, transferred to Infinity assets (primarily investment securities) with a market value of $125.3 million and permits Infinity to continue to write standard and preferred insurance on policies issued by the same GAI companies that had previously issued such policies.

References to Infinity, unless the context requires otherwise includes the Combined Operations of the NSA Group and the Assumed Agency Business. Unless indicated otherwise, the financial information herein is presented on a GAAP basis.

Operations

Infinity estimates that approximately 90% of its personal auto business is nonstandard auto insurance. While there is no precise, industry-recognized definition of nonstandard auto insurance, it is generally understood to mean coverage to drivers who, due to their driving record, age or vehicle type, represent higher than normal risks and pay higher rates for comparable coverage. Based on data published by A.M. Best, Infinity believes that it is the second largest provider of nonstandard auto coverage through independent agents in the United States. Infinity also writes standard and preferred personal auto insurance, nonstandard commercial auto insurance and complementary personal lines insurance products.

Summarized historical financial data for Infinity is presented below (in millions). Data for periods prior to 2003 include only the NSA Group.

	Twelve months ended December 31,		
	2003	**2002**	**2001**
Gross written premium	$1,005.1	$914.6	$962.3
Net written premium	817.6	613.0	737.6
Net earnings	$ 58.2	$ 45.9	$ 9.7

	as of December 31,		
	2003	**2002**	**2001**
Total assets	$1,900.1	$1,551.9	$1,760.4
Total liabilities	1,444.7	1,164.1	1,197.7
Total shareholders equity	$ 455.4	$ 386.8	$ 562.8

Infinity has a history of favorable underwriting results. The following table compares Infinity s statutory combined ratio in past years with those of the personal lines insurance industry as a whole. The statutory combined ratio is the sum of the loss ratio (the ratio of losses and loss adjustment expenses to net earned premiums) and the expense ratio (when calculated on a statutory accounting basis, the ratio of underwriting expenses to net written premiums). 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. The combined ratio does not reflect investment income, other income or federal income taxes.

	2003	2002	2001	2000	1999	1999-2003	1994-2003
Infinity	94.9%	92.7%	104.6%	108.7%	98.7%	100.9%	101.0%
Industry (*)	99.5%	105.3%	110.9%	109.9%	104.5%	105.7%	104.5%
Percentage points Better Than Industry	4.6%	12.6%	6.3%	1.2%	5.8%	4.8%	3.5%

(*) Industry combined ratios were obtained from A.M. Best

3

Business (continued)

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 personal automobile insurance to nonstandard, standard and preferred customers. Personal automobile insurance accounted for approximately 95% of Infinity s gross written premiums for both twelve month periods ended December 31, 2003 and 2002.

Nonstandard Commercial Automobile provides coverage to businesses for liability to others for bodily injury and property damage and for physical damage to businesses vehicles from collision and various other perils. Infinity offers nonstandard commercial automobile insurance to businesses that employ one or more nonstandard risk drivers. Target businesses include fleets of 12 or fewer vehicles. Businesses which are involved in what are considered to be hazardous operations or interstate commerce are generally avoided. Nonstandard commercial automobile insurance accounted for approximately 4% of gross written premiums for the twelve month periods ended December 31, 2003 and 2002.

Homeowners and Other includes homeowners insurance and several other personal lines insurance products. Infinity writes homeowners insurance for dwellings, condominiums and rental property contents on a limited basis in selected markets. Homeowners insurance provides protection against losses from a wide variety of perils, as well as coverage for liability arising from ownership or occupancy. Infinity also writes coverage on a limited basis for personal watercraft, personal articles, such as jewelry, and umbrella liability protection. Homeowners and other insurance accounted for less than 1% of gross written premiums for the twelve month periods ended December 31, 2003 and 2002. Infinity is taking steps to exit these lines of business and does not expect these actions to materially affect its results of operations.

The Personal Automobile Market

Personal auto insurance is the largest line of property and casualty insurance accounting for approximately 35% of the $418 billion of annual industry premiums. Personal auto insurance provides coverage to drivers for liability to others for both bodily injury and property damage and for physical damage to an insured s own vehicle from collision and other perils. Personal auto insurance is comprised of preferred, standard and nonstandard risks. Nonstandard insurance is intended for drivers who, due to their driving record, age or vehicle type, represent a higher than normal risk. As a result, customers that purchase nonstandard auto insurance generally pay higher premiums for similar coverage than drivers qualifying for standard or preferred policies. While there is no established industry-recognized demarcation between nonstandard policies and all other personal auto policies, 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. Approximately one-third of all personal automobile insurance is sold by independent agents. The remainder is sold by exclusive agents or directly by insurance companies to their customers.

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. In the late 1990s, many automobile insurers attempted to capture more business by reducing rates. Infinity believes that these industry-wide rate reductions combined with increased severity trends during the years 1999 through 2001 contributed to the deterioration of industry loss ratios in that period. Infinity reacted by increasing personal auto rates across the NSA Group and Assumed Agency Business by 14% in 2000, 15% in 2001, 12% in 2002 and 2% in 2003. Since that time, most of the industry, including some of the largest companies, have raised rates and tightened underwriting standards in order to address poor results. Other insurance companies withdrew from the market because of their inability to compete successfully, impaired capital positions, or because of a decrease in the availability of reinsurance. In the second half of 2003, competitors who remained in the marketplace began to compete more aggressively for independent agents business by offering modestly increased sales and commission incentives. In 2003, Infinity has not observed widespread rate reductions such as those seen in the years 1999 through 2001 that contributed to the deterioration of industry-wide underwriting results during those years.

Table of Contents

Business (continued)

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, coverages 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 2002, the five largest automobile insurance companies accounted for approximately 48% of the industry s net written premiums and the largest ten accounted for approximately 62% (2003 industry data not available). Approximately 390 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 provide a broad spectrum of personal auto insurance.

Pricing and Product Management

The pricing segmentation approach that Infinity utilizes requires the extensive involvement of product managers who are responsible for the underwriting profitability of a specific state or region with the direct oversight of rate level structure by senior managers. Product managers work closely with the pricing and business development departments to generate rate level indications and other relevant data. This data enables product managers to change the rate structure by evaluating detailed information, such as loss experience based on driver characteristics, financial responsibility scores and make/model of vehicles. Product managers are also responsible for obtaining approval of rate filings from state insurance departments. This approach has permitted a quicker response to adverse loss trends such as those experienced in 1999 and 2000 and allows Infinity to obtain faster approval for rate filings.

Beyond the detailed pricing analysis, product managers are responsible for developing innovative products which meet the needs of Infinity s customers and provide a competitive advantage in the marketplace. Infinity has had success in designing products that provide the basic required coverage for nonstandard customers, and products that include expanded coverage for preferred customers.

Distribution and Marketing

Infinity distributes its products primarily through a network of approximately 14,000 independent agencies and strategic partnerships. Independent agencies were responsible for approximately 94.5% of Infinity s gross written premiums for the twelve month period ended December 31, 2003. In 2003, no one independent agency accounted for more than 2% of Infinity s gross written premiums, and only three agencies accounted for more than 1% of its gross written premiums. Another mode of distribution includes relationships, or strategic partnerships, with some 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 are mutually beneficial relationships since its partners gain access to Infinity s nonstandard auto expertise and Infinity gains access to a new distribution channel. This channel represented approximately 5.5% of gross written premiums in 2003.

Infinity holds licenses to write auto insurance in all 50 states, but is committed to growth in 15 focus states believed to provide the greatest opportunity for profitable growth considering the market size and the current legal and regulatory environment. Infinity s operating states fall into four categories:

Franchise States - These states provide the best opportunity for profitable growth. They are California, Connecticut, Florida, Georgia, and Pennsylvania.

Resource States - Infinity intends to strengthen operations in these 10 states and implement the operating model currently in place in California which stresses the strategies discussed above. Combined with Franchise

States, these states represent the Focus States.

Maintenance States Infinity is seeking to maintain renewal business in these 7 states while rate increases are implemented to achieve underwriting profitability. Infinity is accepting no new business in these states due to what is perceived to be the current lack of opportunity for profitable growth.

Exit States - Infinity has discontinued or intends to discontinue writing insurance in these 28 states.

Table of Contents

Business (continued)

The following table sets forth the distribution of Infinity s gross premiums written by state for the Franchise States, as well as the other categories, as a percent of total gross written premiums for the periods indicated:

	Year Ended December 31,			
	2003	2002	2001	2000
Franchise States:				
California	43%	34%	25%	23%
Florida	10%	10%	10%	10%
Connecticut	10%	8%	8%	7%
Pennsylvania	7%	7%	7%	6%
Georgia	6%	7%	8%	8%
Sub-Total - Franchise States	76%	66%	58%	54%
Next 10 - Resource States	11%	14%	17%	17%
Sub-Total - 15 Focus States	87%	80%	75%	71%
Maintenance States	9%	13%	14%	17%
Exit States	4%	7%	11%	12%
All States	100%	100%	100%	100%

Infinity s business development department is responsible for the distribution and sale of its products through independent agencies and strategic partners. This department is split into two key areas, field operations and corporate business development. The responsibilities of Infinity s field business development representatives include selecting agencies and strategic partners for appointment, training them to sell its products, and monitoring their operations to ensure compliance with its production and profitability standards. While most of the field activity occurs face-to-face in the producer s office, Infinity has had success with other approaches such as group seminars that focus on promoting its products and conducting training for its agents.

Infinity s corporate business development staff is responsible for its branding initiatives, cooperative advertising with its independent agents, sales promotions and agents incentives. In addition, this team is actively engaged in building agency relationships via telephone, e-mail, fax and direct mail.

Infinity fosters its agent relationships by providing its agents with Infinity s software applications along with programs and services designed to strengthen and expand their marketing, sales and service capabilities. Infinity s internet-base 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 their businesses. For example, Infinity s PASS Program (Providing Agents Service and Support) is an incentive-based program through which Infinity s agents earn savings on service and support needs including technology, training, financial services, office supplies, advertising, promotion and travel.

Infinity develops innovative products and services niche markets across the entire range of automobile insurance segments. Infinity focuses particular attention on developing relationships with Latino agents, especially in Southern California. Over the past decade, Latinos have been the fastest growing segment of the United States population according to U.S. Census Bureau data. In Infinity s Franchise States, Latinos constitute an estimated 21% of the population. Over the past decade, Infinity has actively developed close relationships with Latino agents by supporting their businesses and customers in their local communities. Infinity has developed products and services that support their particular needs and interests such as translating important documents to Spanish and providing bilingual customer service and claims personnel. Infinity considers its position in this unique niche of the market, including the Infinity brand, to be a significant competitive advantage.

Table of Contents

Business (continued)

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 2002, Infinity s statutory ratio of underwriting expenses to premiums written has averaged 23.2%, which is 4.4% points better than the personal lines industry average of 27.6% for the same period.

Claims Handling

Infinity s claims organization employs approximately 1,200 people and has 37 field branch offices and three regional offices. Infinity provides a 24-hour, seven days per week toll-free service for its customers to report claims. Infinity uses predominantly its own local adjusters who typically respond to claims within 24 hours of a report.

Infinity is committed to the field handling of claims and believes it provides better service to its customers and better control of the claim resolution process than alternative methods. Infinity opens claims branch offices in areas where it believes the volume of business will support them. Customer interactions can occur with generalists (multi-line claim representatives) and specialists (staff appraisers, field casualty representatives and special investigators) based on local market volume, density and performance. Nationally, over 65% of Infinity s claims are handled face-to-face. Infinity strives for accuracy, consistency and fairness in its claim resolutions. Its claims audit program measures performance in investigations, damage documentation and other relevant areas.

Infinity s claims organization is committed to defending against non-meritorious claims. This is done through referrals to its special investigations team. This team, made up of claims and former law enforcement professionals, works in concert with field operations to resolve questionable claims.

Reinsurance

Infinity reinsures a portion of its business with other insurance companies. Ceding reinsurance permits diversification of risk and limits the maximum loss arising from large or unusually hazardous risks or catastrophic events. Infinity is subject to credit risk with respect to its reinsurers, as the ceding of risk to reinsurers generally does not relieve Infinity of its liability to insureds until claims are fully settled. To attempt to mitigate this credit risk, Infinity cedes business only to reinsurers that meet its credit ratings criteria. Excess of loss and catastrophe reinsurance protection is utilized for both personal and commercial automobile risks.

In April 2001, Infinity entered into a 90% quota share agreement on the personal auto physical damage business written by the NSA Group with Inter-Ocean Reinsurance Company Ltd. (Inter-Ocean), an unaffiliated company which is rated A (Excellent) by A.M. Best. Under this agreement, credit risk was minimized by withholding premiums, in exchange for a fee, until all claims were resolved or the parties mutually agreed to terminate the agreement. This quota share agreement, which was later amended to include coverage of Great American s personal lines that would otherwise be included in the Assumed Agency Business for both policies in effect since January 1, 2002 and unearned premium at December 31, 2001, covered business written through December 31, 2002. This agreement was renewed for 2003 on terms substantially equivalent to those in effect in 2002, except that Infinity added the flexibility to elect, on a quarterly basis, the percentage of business to be added under the reinsurance agreement. The amount ceded under this agreement was reduced from 90% to 20% for the remainder of 2003. Infinity then entered into a new agreement for 2004 with American Re-insurance Company (American Re), an unaffiliated company rated A+ (Superior) by A.M. Best, under substantially the same terms, except that the minimum ceding threshold is 10% and the agreement no longer includes the Assumed Agency Business.

Business (continued)

Loss and Loss Adjustment Expense Reserves

Loss and loss adjustment expense (LAE) reserves represent Infinity s estimate of its ultimate liability for unpaid claims and related adjustment expenses. Infinity estimates liabilities for the costs of losses and LAE for both reported and unreported claims based on historical trends adjusted for changes in loss cost trends, underwriting standards, policy provisions, product mix and other factors. Estimating the liability for unpaid losses and loss adjustment expense is inherently judgmental and is influenced by factors which are subject to significant variation. Infinity monitors items such as the effect of inflation on medical, hospitalization, material repair and replacement costs, general economic trends and the legal environment. While the ultimate liability may be greater or lower than recorded loss reserves, the reserve tail for personal auto coverage is shorter than that associated with many other property and casualty coverages and can, therefore, be established with less uncertainty than coverages having longer reserve tails.

Infinity reviews loss reserve adequacy quarterly and its independent auditors also review the adequacy of loss reserves as part of their audit procedures. Loss and expense reserves are also certified to state regulators annually. Reserves are adjusted as additional information becomes known. Such adjustments are reflected in current year operations.

The internal actuarial staff reviews Infinity s reserves quarterly by accident year at a state and coverage level and at the coverage level for the Assumed Agency Business. Quarterly reviews allow for timely adjustments to reserves based on additional information. As part of these quarterly reviews, the actuarial staff 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 policy. As an overall review, the staff then evaluates loss and LAE ratios by accident year by state and by coverage for reasonableness. Actual frequency is fairly stable because policyholders generally report auto accidents within days of occurrence. Factors that can significantly affect actual frequency include, among others, changes in weather and class of driver. Estimates of average frequency can be affected by changes in claims settlement and reserving practices, but are generally reliable. Loss severity is not as readily estimable, and can be affected by auto repair and medical cost inflation, jury awards and changes in policy limit profiles. For the nonstandard book of business, the challenge of estimating average severity is somewhat mitigated by state-mandated minimum policy limits for bodily injury and property damage on over 90% of its policies. 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 cap the total payout. Estimation of LAE reserves is subject to variation from factors such as use of outside adjusters, frequency of lawsuits, claims staffing and experience levels.

The following tables present the development of Infinity s loss reserves, net of reinsurance, on a GAAP basis for the calendar years 1993 through 2003. The Infinity table includes the loss reserves of the NSA Group through December 31, 2002, then the addition of the Assumed Agency Business for 2003. The top line of each table shows the estimated liability (in millions) for unpaid losses and LAE recorded at the balance sheet date for the indicated years. The next line, captioned Liability for Unpaid Losses and Loss Adjustment Expenses as re-estimated at December 31, 2003, shows the re-estimated liability as of December 31, 2003. The remainder of the table presents intervening development as percentages of the initially estimated liability. The development results from additional information and experience in subsequent years. The middle line shows a cumulative deficiency (redundancy) which represents the aggregate percentage increase (decrease) in the liability initially estimated. The lower portion of the table indicates the cumulative amounts paid as of successive periods as a percentage of the original loss reserve liability.

Table of Contents

Business (continued)

These tables do not present accident or policy year development data. Furthermore, in evaluating the re-estimated liability and cumulative deficiency (redundancy), it should be noted that each percentage includes the effects of changes in amounts for prior periods. Conditions and trends that have affected development of the liability in the past may not necessarily exist in the future. Accordingly, it may not be appropriate to extrapolate future redundancies or deficiencies based on these tables.

INFINITY

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Liability for unpaid losses & loss adjustment expenses:											
As originally estimated	$ 385	$ 489	$ 569	$ 511	$ 525	$ 589	$ 543	$ 627	$ 608	$ 571	$ 679
Addition of Assumed Agency										126	
										697	
As re-estimated at December 31, 2003	347	495	568	533	537	553	516	672	647	711	N/A
Liability re-estimated:											
One year later	89.6%	96.8%	97.8%	99.5%	100.8%	95.0%	95.3%	98.5%	100.2%	102.1%	
Two years later	89.3%	100.4%	98.6%	101.9%	103.3%	93.6%	92.9%	101.1%	106.4%		
Three years later	89.7%	101.1%	99.2%	104.7%	102.5%	91.0%	93.6%	107.1%			
Four years later	90.2%	100.9%	100.3%	104.3%	100.9%	92.5%	95.0%				
Five years later	90.1%	101.5%	100.0%	103.5%	101.7%	94.0%					
Six years later	90.4%	101.3%	99.5%	103.9%	102.3%						
Seven years later	90.6%	100.9%	99.7%	104.3%							
Eight years later	90.1%	101.0%	99.8%								
Nine years later	90.1%	101.1%									
Ten years later	90.1%										

Cumulative deficiency (redundancy):	(9.9%)	1.1%	(.2%)	4.3%	2.3%	(6.0%)	(5.0%)	7.1%	6.4%	2.1%	N/A
Cumulative paid as of:											
One year later	58.8%	64.1%	63.8%	62.9%	59.3%	54.5%	53.0%	53.5%	51.5%	49.1%	
Two years later	76.9%	87.2%	85.0%	83.9%	81.3%	73.2%	69.6%	76.6%	79.2%		
Three years later	84.6%	95.2%	93.2%	94.3%	90.8%	80.6%	81.4%	91.5%			
Four years later	87.5%	98.2%	96.6%	98.7%	94.8%	86.5%	88.7%				
Five years later	88.7%	99.6%	98.3%	100.4%	98.0%	90.1%					
Six years later	89.4%	100.5%	98.4%	101.9%	100.2%						
Seven years later	89.9%	100.3%	98.8%	103.1%							
Eight years later	89.6%	100.6%	99.3%								
Nine years later	89.8%	100.7%									
Ten years later	89.8%										

The following is a reconciliation of Infinity s net liability to the gross liability for unpaid losses and loss adjustment expense.

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
As originally estimated											
Net liability shown above	$385	$489	$569	$511	$525	$589	$543	$627	$608	$571	$679
Addition of Assumed Agency										126	
										697	
Add reinsurance Recoverables	11	7	5	12	6	10	10	13	37	33	31
Gross liability	$396	$496	$574	$523	$531	$599	$553	$640	$645	$730	$710
As re-estimated at December 31, 2003:											