

SAFETY INSURANCE GROUP INC

Form 10-Q

November 03, 2017

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 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: 000-50070

SAFETY INSURANCE GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

13-4181699
(I.R.S. Employer Identification No.)

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20 Custom House Street, Boston, Massachusetts 02110

(Address of principal executive offices including zip code)

(617) 951-0600

(Registrant's telephone number, including area code)

Not Applicable

(Former name or former address, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark 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 definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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 Exchange Act).

Yes No

As of November 1, 2017 there were 15,219,974 shares of common stock with a par value of \$0.01 per share outstanding.

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SAFETY INSURANCE GROUP, INC.

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Safety Insurance Group, Inc. and Subsidiaries

Consolidated Balance Sheets

(Dollars in thousands, except share data)

| | September 30, 2017 (Unaudited) | December 31, 2016 |
|--|--------------------------------------|----------------------|
| Assets | | |
| Investments: | | |
| Securities available for sale: | | |
| Fixed maturities, at fair value (amortized cost: \$1,155,466 and \$1,142,663) | \$ 1,177,631 | \$ 1,154,269 |
| Equity securities, at fair value (cost: \$87,580 and \$92,326) | 105,987 | 105,095 |
| Other invested assets | 27,893 | 21,142 |
| Total investments | 1,311,511 | 1,280,506 |
| Cash and cash equivalents | 31,934 | 20,052 |
| Accounts receivable, net of allowance for doubtful accounts | 205,835 | 187,696 |
| Receivable for securities sold | 2,495 | 7,098 |
| Accrued investment income | 9,674 | 8,858 |
| Taxes recoverable | 3,849 | — |
| Receivable from reinsurers related to paid loss and loss adjustment expenses | 42,865 | 29,504 |
| Receivable from reinsurers related to unpaid loss and loss adjustment expenses | 92,942 | 83,724 |
| Ceded unearned premiums | 30,578 | 28,585 |
| Deferred policy acquisition costs | 76,458 | 70,996 |
| Deferred income taxes | — | 3,083 |
| Equity and deposits in pools | 30,934 | 24,675 |
| Other assets | 15,535 | 13,469 |
| Total assets | \$ 1,854,610 | \$ 1,758,246 |
| Liabilities | | |
| Loss and loss adjustment expense reserves | \$ 577,637 | \$ 560,321 |
| Unearned premium reserves | 451,119 | 418,033 |
| Accounts payable and accrued liabilities | 51,290 | 66,805 |
| Payable for securities purchased | 14,860 | 5,564 |
| Payable to reinsurers | 29,013 | 13,502 |
| Deferred income taxes | 6,412 | — |
| Taxes payable | — | 1,110 |
| Other liabilities | 21,440 | 22,185 |
| Total liabilities | 1,151,771 | 1,087,520 |

Commitments and contingencies (Note 7)

Shareholders' equity

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| | | |
|--|--------------|--------------|
| Common stock: \$0.01 par value; 30,000,000 shares authorized; 17,499,544 and 17,430,189 shares issued | 175 | 174 |
| Additional paid-in capital | 188,576 | 184,549 |
| Accumulated other comprehensive income, net of taxes | 26,371 | 15,843 |
| Retained earnings | 571,552 | 553,995 |
| Treasury stock, at cost: 2,279,570 shares | (83,835) | (83,835) |
| Total shareholders' equity | 702,839 | 670,726 |
| Total liabilities and shareholders' equity | \$ 1,854,610 | \$ 1,758,246 |

The accompanying notes are an integral part of these financial statements.

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Safety Insurance Group, Inc. and Subsidiaries

Consolidated Statements of Operations

(Unaudited)

(Dollars in thousands, except per share data)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|------------|
| | 2017 | 2016 | 2017 | 2016 |
| Net earned premiums | \$ 195,524 | \$ 190,712 | \$ 578,059 | \$ 563,759 |
| Net investment income | 9,503 | 8,967 | 28,313 | 28,235 |
| Earnings from partnership investments | 351 | 802 | 1,233 | 3,089 |
| Net realized gains on investments | 2,717 | 4,891 | 4,826 | 4,928 |
| Net impairment losses on investments (a) | (256) | — | (256) | (429) |
| Finance and other service income | 4,690 | 4,713 | 13,373 | 13,282 |
| Total revenue | 212,529 | 210,085 | 625,548 | 612,864 |
| Losses and loss adjustment expenses | 123,792 | 124,961 | 369,271 | 366,084 |
| Underwriting, operating and related expenses | 62,994 | 58,406 | 183,643 | 171,876 |
| Interest expense | 22 | 22 | 67 | 67 |
| Total expenses | 186,808 | 183,389 | 552,981 | 538,027 |
| Income before income taxes | 25,721 | 26,696 | 72,567 | 74,837 |
| Income tax expense | 7,767 | 8,099 | 21,489 | 22,205 |
| Net income | \$ 17,954 | \$ 18,597 | \$ 51,078 | \$ 52,632 |
| Earnings per weighted average common share: | | | | |
| Basic | \$ 1.19 | \$ 1.24 | \$ 3.38 | \$ 3.50 |
| Diluted | \$ 1.18 | \$ 1.23 | \$ 3.36 | \$ 3.48 |
| Cash dividends paid per common share | \$ 0.80 | \$ 0.70 | \$ 2.20 | \$ 2.10 |
| Number of shares used in computing earnings per share: | | | | |
| Basic | 15,021,189 | 14,960,516 | 15,007,221 | 14,941,732 |
| Diluted | 15,161,962 | 15,076,635 | 15,124,044 | 15,018,124 |

(a)

No portion of the other-than-temporary impairments recognized in the period indicated were included in Other Comprehensive Income.

The accompanying notes are an integral part of these financial statements.

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Safety Insurance Group, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income

(Unaudited)

(Dollars in thousands)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-----------|------------------------------------|-----------|
| | 2017 | 2016 | 2017 | 2016 |
| Net income | \$ 17,954 | \$ 18,597 | \$ 51,078 | \$ 52,632 |
| Other comprehensive income, net of tax: | | | | |
| Unrealized holding gains during the period, net of income tax expense of \$1,985, \$723, \$7,358 and \$11,657. | 3,687 | 1,343 | 13,665 | 21,649 |
| Reclassification adjustment for losses included in net income, net of income tax expense of (\$951), (\$1,712), (\$1,689) and (\$1,725). | (1,766) | (3,179) | (3,137) | (3,203) |
| Unrealized gains or (losses) on securities available for sale | 1,921 | (1,836) | 10,528 | 18,446 |
| Comprehensive income | \$ 19,875 | \$ 16,761 | \$ 61,606 | \$ 71,078 |

The accompanying notes are an integral part of these financial statements.

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Safety Insurance Group, Inc. and Subsidiaries

Consolidated Statements of Changes in Shareholders' Equity

(Unaudited)

(Dollars in thousands)