

# ANNUAL REPORT 2016

90 years of personalized service and “Being the Best”





“So valuable is the human element that I will not let this Company lose the human touch which has been largely responsible for its success.”

-D.L.B. Smith  
Founder

A horse and carriage accident in the early 1900's led D.L.B. Smith to enter the insurance business and, in 1926, establish the Selected Risks Insurance Company in New Jersey. While much has changed over nine decades of growth, expansion and improvements, some things have remained the same, including the company's commitment to servicing customers and independent insurance agents. The historical highlights below are some of the milestones that helped lay the foundation for Selective's success today, our "high-tech, high-touch" business model, and unique field model.

<b>1926</b> Selected issued its first policy — a 1925 Hupmobile sedan — with an annual premium of \$19.20.	<b>1931</b> Coverages were expanded to include general liability, workers compensation, property, and municipal government insurance.	<b>1937</b> The company began its growth as a regional insurer by adding PA, MD, DE, and DC to its operating territory.	<b>1962</b> The IBM RAMAC 1401 computer was installed, enabling the company to process 13 policies per minute.
<b>1975</b> The company adds fidelity, contract surety, and commercial surety bonds to its array of products.	<b>1977</b> Selective Insurance Group, Inc. (formerly named SRI Corporation) was incorporated.	<b>1984</b> The company began issuing flood insurance on behalf of the federal government's "Write Your Own" flood program.	<b>1993</b> Operations were restructured into Strategic Business Units to focus on underwriting and product development for specific business segments.
<b>1995</b> Selective launched an improved and expanded field underwriting program to bring underwriting decision-making closer to customers.	<b>1996</b> Selective began a Midwest expansion, adding nine new states over two years.	<b>2000</b> Selective formalized its "high-tech, high-touch" business model to emphasize its commitment to personalized customer service and technology.	<b>2001</b> Selective opened a Service Center in Richmond, VA, which now handles underwriting, claims, and personal lines services.
<b>2003</b> Selective advanced its underwriting technology by enhancing the Commercial Lines Automated System (CLAS®) and launching SelectPLUS® for Personal Lines.	<b>2007</b> Selective continued its expansion by adding MA to its operating territory, followed by TN in 2008.	<b>2011</b> Selective acquired two contract binding authority excess and surplus operations, now known as Mesa Underwriters Specialty Insurance Company (MUSIC).	<b>2016</b> As Selective celebrated its 90th year in business, the company achieved record underwriting profitability and announced plans for a Southwest expansion.

# 2016 FINANCIAL HIGHLIGHTS

(\$ in millions, except per share data)	2016	2015	% or Point Change Better (Worse)
<b>Insurance Operations</b>			
Net premiums written (NPW)	\$2,237.3	\$2,069.9	8%
GAAP combined ratio	92.9%	92.5%	(0.4) pts
Statutory combined ratio	91.8%	92.4%	0.6 pts
Underwriting gain after-tax	\$98.8	\$96.9	2%
Return on equity (ROE) from insurance operations after-tax	6.7%	7.3%	(0.6) pts
<b>Investments</b>			
Net investment income after-tax	\$98.4	\$93.8	5%
Net realized (losses) gains after-tax	\$(3.2)	\$8.6	(137)%
Total invested assets	\$5,364.9	\$5,089.3	5%
Invested assets per dollar of stockholders' equity	\$3.50	\$3.64	(4)%
Annual after-tax yield on investment portfolio	1.9%	1.9%	– pts
ROE from net investment income after-tax	6.7%	7.0%	(0.3) pts
<b>Summary Data</b>			
Total revenues	\$2,284.3	\$2,131.9	7%
Net income	\$158.5	\$165.9	(4)%
Return on average equity	10.8%	12.4%	(1.6) pts
Operating income*	\$161.7	\$157.3	3%
Operating return on average equity*	11.0%	11.8%	(0.8) pts
Operating cash flow as % of NPW	13.5%	18.4%	(4.9) pts
Total assets	\$7,355.8	\$6,904.4	7%
Stockholders' equity	\$1,531.4	\$1,398.0	10%
<b>Per Share Data</b>			
Diluted net income	\$2.70	\$2.85	(5)%
Diluted operating income*	\$2.75	\$2.70	2%
Dividends	\$0.61	\$0.57	7%
Stockholders' equity	\$26.42	\$24.37	8%

## 91.8%

Overall Statutory Combined Ratio

## 8%

Year over Year Growth in NPW

## 11%

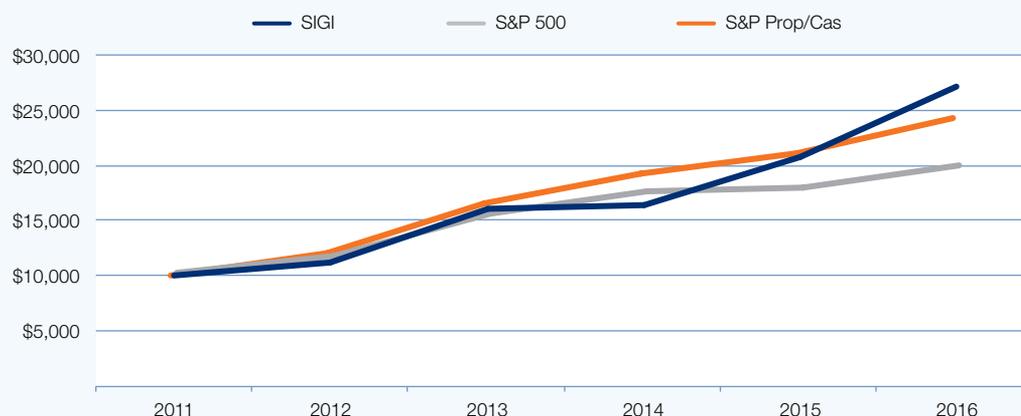
Operating Return on Equity\*

## 8%

Year over Year Growth  
in Book Value Per Share

## Average Annual Return

Growth of a  
\$10,000 investment  
(year-end 2011-16)



\* Operating income, operating earnings per share, and operating return on equity are non-GAAP (U.S. Generally Accepted Accounting Principles) measures. Refer to the section entitled, "Financial Highlights of Results for Years Ended December 31, 2016, 2015, and 2014" in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations," which appears in the Company's Form 10-K for a reconciliation of the non-GAAP measures to the equivalent GAAP measures.

## TO OUR SHAREHOLDERS

Looking back on Selective's highly successful history and our evolution over the past 90 years, we are particularly gratified that today, we are in our strongest position yet from both a financial and strategic standpoint.

We are extremely pleased with our long-term financial performance. In fact, in 2016 and 2015, we reported some of the strongest underwriting margins in our history as a publicly-traded company. We generated a record low statutory combined ratio of 91.8% in 2016 and Standard & Poor's recognized our strong operating results when they upgraded our financial strength ratings to A from A- in late 2016. Selective's stock price hit a record high in early March 2017.

Our results are even more compelling against the backdrop of the longest low-interest rate environment we have witnessed in several decades. Low interest rates have significantly limited net investment income potential for the industry, and require property and casualty companies to demonstrate strong underwriting discipline that produces underwriting profits in order to meet return targets. Our record underwriting margin in 2016 demonstrates our ability to successfully execute our strategic priorities. We achieved Commercial Lines renewal pure price increases that, since 2009, are well above the industry average, maintained high retention rates, and generated substantial new business — all while improving the underlying profitability of our book of business. While Standard Commercial Lines remains our profit engine, with 78% of net premiums written and a statutory combined ratio of 89.9% in 2016, we also are pleased with the strategic direction and execution of our Personal Lines and Excess and Surplus Lines operations.

We have transformed ourselves over the years into a super-regional property and casualty insurance company, writing Standard Commercial Lines business in 22 states, with a focus on customer service, excellent product offerings, and technical capabilities on par with national carriers. We are the 41st largest property and casualty insurance company in the United States as ranked by A.M. Best Company, based on 2015 net premiums written. We have about a 1% Commercial Lines market share in the states where we operate, and our long-term goal is to increase our market share to approximately 3%. We seek to accomplish this by increasing our agency appointments over time to represent a 25% market share in the states where we are fully operational (an additional \$1.8 billion premium opportunity), and targeting a 12% share of wallet within our existing agency partners (an additional \$1.0 billion premium opportunity). We are also well on track to expand into new markets as part of our geo-expansion strategy, with operations in Arizona and New Hampshire targeted to open later in 2017. Our ultimate goal is to develop a 50-state Standard Commercial Lines presence to match our specialized Flood and Excess and Surplus Lines footprint, but we will seek to achieve this objective in a disciplined manner.

We have often described Selective's sustainable competitive advantages as being our: 1) true franchise value with "ivy league" distribution partners; 2) unique field model enabled with sophisticated underwriting and claims tools; and 3) superior customer experience delivered by our best-in-class employees.

Enhancing our competitive strengths remains a key strategic focus for our management team:

- We continue to invest in growing the talent in our field-based underwriting model, and providing our distribution partners with superior technological solutions to help them succeed. Our partners appreciate our "high-tech, high-touch" business model that empowers our field team with the local underwriting authority and sophisticated tools required to acquire business efficiently. They also value our locally-based claims teams and Safety Management Specialists, who are tasked with anticipating and providing advice on risks before losses occur.
- We will be rolling out our new Underwriting Insights product to our New Business Underwriters, providing them with another sophisticated tool to analyze their opportunities on an automated basis with more insightful data. The product builds on the strong capabilities of our Dynamic Portfolio Manager tool, helping to segment and rank business based on expected profitability and risk characteristics. Our ability to respond quickly and with the right solutions to our distribution partners' requirements is a key differentiator.
- Providing a superior customer experience and developing omni-channel service capabilities are key strategic priorities and differentiators for Selective. We continue to invest in building and delivering — with our distribution partners — a seamless world-class customer experience, 24 hours a day, 365 days a year, in a manner our customers choose, while building out our Master Data Management and Customer Relationship Management platforms. We strive to develop a "360-degree view" of our customers to help provide them with the most effective solutions.

Our achievements in 2016 could not have been accomplished without the hard work, focus, and dedication of Selective's best-in-class employees who strive every day to achieve the high targets that we set. Our focus on ensuring the highest level of service to our distribution partners and customers has always been the cornerstone of our strategy, and remains vital to achieving our strategic objectives. We are committed to delivering a product that our distribution partners and customers can trust to be there when they need it most, along with the great service they expect and deserve.



Gregory E. Murphy, Chairman and CEO, and John J. Marchioni, President and COO, stand in front of the carriage that led to Selective's founding in 1926. The carriage serves as a reminder of the company's rich and illustrious 90-year history.

### 2016 Financial Results

2016 was an excellent year for Selective, as we generated net income of \$158 million and an operating return on equity of 11%. The results reflect overall favorable loss reserve development and less severe weather, but they also reflect the significant impact of a number of initiatives implemented to improve the business mix and enhance claims outcomes. We believe these improvements should lead to sustained margin benefits relative to the industry over time. Our stated long-term financial goal is to generate an operating return on equity for our shareholders that is 300 basis points above our weighted average cost of capital. Net premiums written grew at a robust 8% in 2016 and totaled \$2.2 billion. Our overall statutory combined ratio was 91.8% in 2016, our most profitable underwriting result yet as a publicly-traded corporation.

### Commercial Insurance

Our core Standard Commercial Lines business, which accounts for 78% of total net premiums written, had another excellent year. Net premiums written increased 9% and the statutory combined ratio was an extremely profitable 89.9% for the year. Results were driven by strong performance in larger lines, such as general liability and workers compensation, but commercial auto results negatively impacted us like the rest of the industry. Generating profitable growth across all our businesses remains a high priority for Selective. Renewal Commercial Lines pure price increases averaged 2.6% in 2016, which is well above the industry average as measured by the Willis Towers Watson Commercial Lines Insurance Pricing Survey. Effectively managing renewal pure price, maintaining strong retention rates, and generating new business are core initiatives of our growth strategy.

During 2016, Selective appointed 110 new agents and we are planning for an additional 85 new agency appointments in 2017. We now have 105 field-based Agency Management Specialists servicing our distribution partners.

### Personal Insurance

Personal Lines, which accounts for 13% of total net premiums written, had a profitable year and generated a 95.2% statutory combined ratio for 2016. Steps that we have taken in recent years to improve performance in the homeowners line of business resulted in a 91.7% statutory combined ratio. Our personal auto business has experienced some adverse loss trends, as has the rest of the industry. For some time, we have taken aggressive pricing actions in the personal auto line that made us less competitive. As the industry catches up and raises prices to address profitability, we expect that our pricing will become more competitive and we will see more opportunities to profitably grow the business.

### Excess and Surplus

Our Excess and Surplus Lines segment, which accounts for 9% of total net premiums written, generated a 102.1% statutory combined ratio for the year. We have taken a number of steps to address the profitability of this segment, including implementing substantial targeted price increases and changing the business mix. When combined with our initiatives to centralize claims handling and improve settlement outcomes, we are on track to increase profitability in this line significantly in the coming years. Our long-term goal is to write the Excess and Surplus business at a combined ratio that is better than that of our Standard Commercial Lines segment.

### Looking to the Future

As we look to the future, we are positioning ourselves for a more competitive environment with a razor sharp focus on generating adequate returns for our shareholders. We are preparing ourselves for change in a period of uncertainty — whether it be interest rates, tax rates, legislative changes, or inflation. We will continue to invest in strategic initiatives to enhance our technological offerings to our agents, refine our underwriting tools, and improve the overall customer experience.

**Gregory E. Murphy**  
Chairman and CEO

**John J. Marchioni**  
President and COO

# COMPANY OVERVIEW

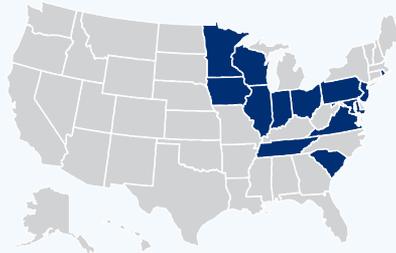
## Where We Do Business

Selective is a super-regional insurance carrier operating in the following states:

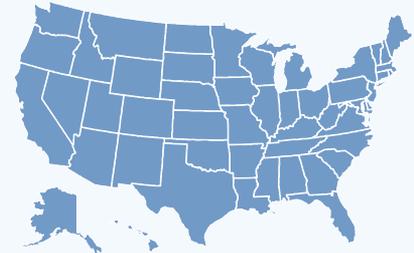
**Standard Commercial** (22 states)  
Targeted expansion states in 2017



**Standard Personal** (13 states)  
\* Flood Insurance available in all 50 States.



**Excess & Surplus** (50 states)



## Our Segments

Selective has a long history of financial strength, superior execution, and profitable growth. The company provides value-added products and services to businesses, public entities, and individuals through the following segments:

### Standard Commercial 78% of business\*

Selective provides commercial insurance to more than 80 industry segments through our Strategic Business Units that include Contractors; Mercantile and Service; Community and Public Services; Manufacturing and Wholesale; and Bonds. Unique risk management solutions, safety management expertise, customer-centric claims service, and a commitment to superior customer service position Selective as the carrier of choice for business insurance.

### Standard Personal 13% of business\*

Selective offers a number of customizable insurance solutions for drivers, renters, and homeowners, including coverage for personal watercraft and watercraft equipment. In addition, Selective is the 6th largest Write Your Own (WYO) carrier in the National Flood Insurance Program, providing flood building and contents coverage to homeowners and businesses across all 50 states.

### Excess & Surplus 9% of business\*

Selective offers Excess and Surplus Lines property, general liability, and inland marine products coverage through wholesale agents and brokers to customers in targeted industry segments, including artisan and general contractors; restaurants, bars and taverns; and habitational vacant dwellings.

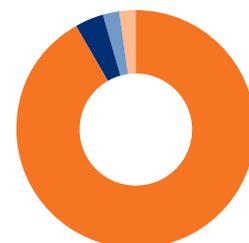
## Investments

Selective invests the premiums collected by our insurance segments, as well as amounts generated throughout our capital management strategies. The primary objective of the investment portfolio is to maximize after-tax net investment income while balancing risk and generating long-term growth in shareholder value. Our overall portfolio — \$5.4 billion — has an average AA- credit quality and an effective duration of 3.6 years. For every \$3.50 of invested assets, we have \$1 of stockholders' equity.

## Conservative Investment Portfolio

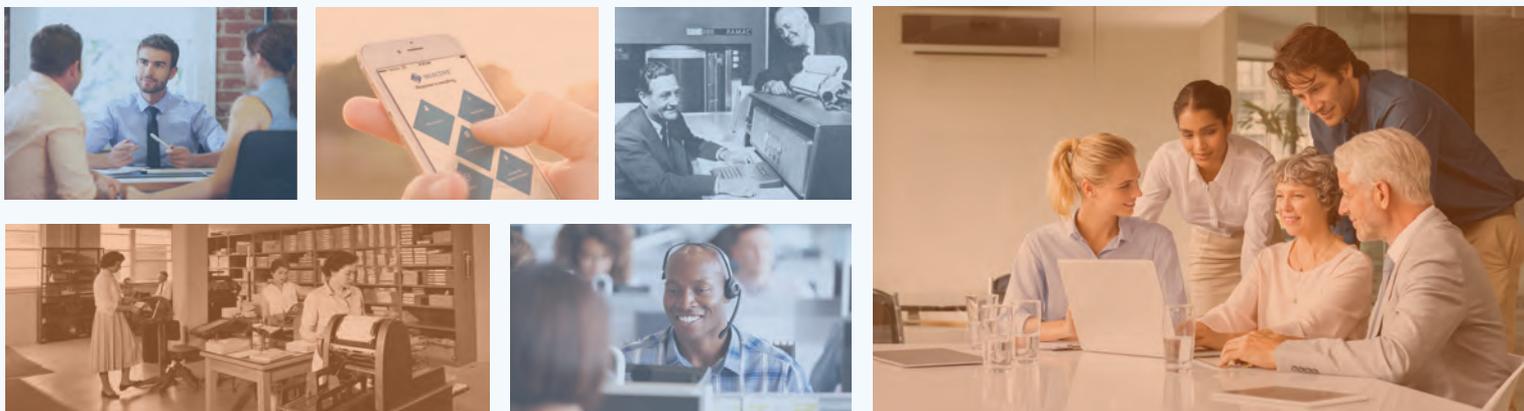
AS OF 12/31/2016

- Fixed Income: 92%
- Short-term: 4%
- Equities: 2%
- Alternatives & Other: 2%



\* Based on net premiums written

## OUR COMPETITIVE ADVANTAGES



Selective's long history of financial strength, superior execution, and profitable growth can be attributed to our sustainable competitive advantages:

### True franchise value with "ivy league" distribution partners

Insurance is a relationship business, and Selective has true franchise value with our distribution partners who are committed to driving profitable growth, as well as providing best-in-class service to our shared customers. We are the 41st largest\* property and casualty company in the U.S., with more than 1,100 retail and 80 wholesale distribution agents.

### Unique field model coupled with sophisticated underwriting and claims tools

We have a highly responsive, field-based model with approximately:

- 105 Agency Management Specialists
- 15 Personal Lines Marketing Specialists
- 115 Field claims adjusters
- 80 Safety Management Specialists

All of our field employees are armed with sophisticated underwriting and claims tools to better service our distribution partners and shared customers. Our distribution partners cite our field employees as the number one reason they place their best business with us.

### Superior customer experience delivered by best-in-class employees

The cornerstone of Selective's success is our talented team. One of our core values is to Be the Best, which includes developing the best employees, creating the best products for our customers and delivering the best service to our distribution partners and shared customers. The strong customer-centric focus shared by our employees ensures we continually deliver a superior customer experience across all channels, commonly known as omni-channel, so we can serve our customers how and when they choose.

Our competitive advantages, coupled with our strong balance sheet and conservative investment portfolio, allow us to take on more operating leverage with a net premiums written to statutory surplus ratio of 1.4 to 1, which is approximately twice the industry average. As a result, each point on our combined ratio equates to approximately 1.0 point of operating ROE.\*\*

\* According to A.M. Best Top 200 U.S. Property/Casualty Writers, ranked by 2015 net premiums written.

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# MANAGEMENT TEAM



**Gregory E. Murphy**  
Chairman and  
Chief Executive Officer



**Angelique Carbo**  
Executive Vice President  
Chief Human Resources Officer



**George A. Neale**  
Executive Vice President  
Chief Claims Officer



**John J. Marchioni**  
President and  
Chief Operating Officer



**Gordon J. Gaudet**  
Executive Vice President  
Chief Information Officer



**Mark A. Wilcox**  
Executive Vice President  
Chief Financial Officer



**Michael H. Lanza**  
Executive Vice President  
General Counsel and  
Chief Compliance Officer



**Ronald J. Zaleski, Sr.**  
Executive Vice President  
Chief Actuary

## DIRECTORS

**Paul D. Bauer 1998**

Lead Independent Director, Selective Insurance Group, Inc.  
Retired, former Executive Vice President and  
Chief Financial Officer, Tops Markets, Inc.

**A. David Brown 1996 to April 2015 and since July 2015**

Retired, former Executive Vice President and  
Chief Administrative Officer, Urban Brands, Inc.

**John C. Burville, Ph.D, FIA, MAAA 2006**

Retired, former Insurance Consultant  
to the Bermuda Government

**Robert Kelly Doherty 2015**

Managing Partner, Caymen Advisors  
and Caymen Partners

**Michael J. Morrissey, CFA 2008**

President and Chief Executive Officer,  
International Insurance Society, Inc.

**Gregory E. Murphy 1997**

Chairman and Chief Executive Officer,  
Selective Insurance Group, Inc.

**Cynthia (Cie) S. Nicholson 2009**

Chief Operating Officer, Forkcast

**Ronald L. O'Kelley 2005**

Chairman and Chief Executive Officer,  
Atlantic Coast Venture Investments Inc.

**William M. Rue 1977**

Chairman, Chas. E. Rue & Son, Inc.,  
t/a Rue Insurance

**John S. Scheid, CPA 2014**

Owner, Scheid Investment Group, LLC  
Former Senior Partner, PricewaterhouseCoopers LLC

**J. Brian Thebault 1996**

Partner, Thebault Associates

**Philip H. Urban 2014**

Retired, former President and  
Chief Executive Officer, Grange Insurance



◀ The first Board of  
Directors in 1926.

# OFFICERS

## Chairman and Chief Executive Officer

**Gregory E. Murphy**<sup>1,2</sup>

## President and Chief Operating Officer

**John J. Marchioni**<sup>1,2</sup>

## Executive Vice Presidents

**Angelique M. Carbo**<sup>2</sup>  
Chief Human Resources Officer

**Gordon J. Gaudet**<sup>2</sup>  
Chief Information Officer

**Michael H. Lanza**<sup>1,2</sup>  
General Counsel and  
Chief Compliance Officer

**George A. Neale**<sup>2</sup>  
Chief Claims Officer

**Mark A. Wilcox**<sup>1,2</sup>  
Chief Financial Officer

**Ronald J. Zaleski, Sr.**<sup>1,2</sup>  
Chief Actuary

## Senior Vice Presidents

**Charles C. Adams**<sup>2</sup>  
Regional Manager  
Mid-Atlantic Region

**Shadi Albert**<sup>2</sup>  
Regional Manager  
Southwest Region

**Allen H. Anderson**<sup>2</sup>  
Chief Underwriting Officer  
Personal Lines/Flood

**Jeffrey F. Beck**<sup>2</sup>  
Government and Regulatory Affairs

**John P. Bresney**<sup>2</sup>  
Enterprise Application  
Delivery Services

**Teresa M. Caro**<sup>2</sup>  
Regional Manager  
New Jersey Region

**Sarita G. Chakravarthi**<sup>1,2</sup>  
Tax and Assistant Treasurer

**Thomas M. Clark**<sup>2</sup>  
Claims General Counsel

**Joseph O. Eppers**<sup>1,2</sup>  
Chief Investment Officer

**Brenda M. Hall**<sup>2</sup>  
Chief Strategic Operations Officer

**Anthony D. Harnett**<sup>1,2</sup>  
Chief Accounting Officer

**Todd Hoivik**<sup>2</sup>  
Commercial Lines Pricing  
and Research

**Martin Hollander**<sup>1,2</sup>  
Chief Audit Executive

**Kory Jensen**<sup>2</sup>  
IT Infrastructure and Operations

**Jeffrey F. Kamrowski**<sup>2</sup>  
Chief Underwriting Officer  
Commercial Lines

**Robert J. McKenna, Jr.**<sup>2</sup>  
Enterprise Architecture and  
Information Security

**James McLain**<sup>2</sup>  
Chief Field Operations Officer

**Ryan Miller**<sup>2</sup>  
Regional Manager  
Southern Region

**Yanina Montau-Hupka**<sup>1,2</sup>  
Chief Risk Officer

**Rohit Mull**<sup>2</sup>  
Chief Marketing Officer

**Charles A. Musilli, III**<sup>2</sup>  
Distribution Strategy

**Richard R. Nenaber**<sup>2</sup>  
MUSIC

**Rohan Pai**<sup>1,2</sup>  
Investor Relations and Treasurer

**Thomas S. Purnell**<sup>2</sup>  
Regional Manager  
Northeast Region

**Erik A. Reidenbach**<sup>2</sup>  
Regional Manager  
Heartland Region

**Brian C. Sarisky**<sup>2</sup>  
Commercial Lines Underwriting

**Vincent M. Senia**<sup>2</sup>  
Director of Actuarial Reserving

<sup>1</sup>Selective Insurance Group, Inc.

<sup>2</sup>Selective Insurance Company of America

# INVESTOR INFORMATION

## Annual Meeting

Wednesday, April 26, 2017  
Selective Insurance Group, Inc.  
40 Wantage Avenue  
Branchville, New Jersey 07890

## Investor Relations

Rohan Pai  
Senior Vice President  
Investor Relations and Treasurer  
(973) 948.1364  
investor.relations@Selective.com

## Dividend Reinvestment Plan

Selective Insurance Group, Inc. makes available to holders of its common stock an automatic dividend reinvestment and stock purchase plan.

For information contact:  
Wells Fargo Shareowner Services  
P.O. Box 64854  
St. Paul, Minnesota 55164  
(866) 877.6351

## Registrar and Transfer Agent

Wells Fargo Shareowner Services  
P.O. Box 64854  
St. Paul, Minnesota 55164  
(866) 877.6351

## Auditors

KPMG LLP  
345 Park Avenue  
New York, New York 10154

## Internal Audit Department

Martin Hollander  
Chief Audit Executive  
internal.audit@Selective.com

## Executive Office

40 Wantage Avenue  
Branchville, New Jersey 07890  
(973) 948.3000

## Shareholder Relations

Robyn P. Turner  
Corporate Secretary  
(973) 948.1766  
shareholder.relations@Selective.com

## Common Stock Information

Selective Insurance Group, Inc.'s common stock trades on the NASDAQ Global Select Market under the symbol: SIGI.

## Form 10-K

Selective's Form 10-K, as filed with the U.S. Securities and Exchange Commission, is provided as part of this 2016 Annual Report.

## Website

Visit us at [www.Selective.com](http://www.Selective.com) for information about Selective, including our latest financial news.



**Selective Insurance Group, Inc.**

40 Wantage Avenue  
Branchville, New Jersey 07890

[www.Selective.com](http://www.Selective.com)



**The Selective Mobile App**

Where we put *Response is everything.*<sup>®</sup>  
in the palm of your hand.

