FINAL TRANSCRIPT

Thomson StreetEvents℠

SIGI - Q1 2011 Selective Insurance Group Inc Earnings Conference Call

Event Date/Time: Apr. 28. 2011 / 12:30PM GMT

CORPORATE PARTICIPANTS

Jennifer DiBerardino
Selective Insurance Group, Inc - SVP IR, Treasurer

Greg Murphy
Selective Insurance Group, Inc - Chairman, President & CEO

Dale Thatcher
Selective Insurance Group, Inc - EVP & CFO

Ron Zaleski
Selective Insurance Group, Inc - EVP Chief Actuary

John Marchioni
Selective Insurance Group, Inc - EVP Insurance Operations

CONFERENCE CALL PARTICIPANTS

Caroline Cameron
Macquarie - Analyst

Mike Grasher
Piper Jaffray - Analyst

Doug Mewhirter
RBC Capital Markets - Analyst

Bob Farnam
KBW - Analyst

Robert Paun
Sidoti & Company - Analyst

PRESENTATION

Operator

Good day, everyone. Welcome to the Selective Insurance Group's First Quarter 2011 Earnings Release Conference Call. At this time, for opening remarks and introductions, I would like to turn the call over to Senior Vice President Investor Relations and Treasurer, Miss Jennifer DiBerardino.

Jennifer DiBerardino - *Selective Insurance Group, Inc - SVP IR, Treasurer*

Thank you. Good morning!

Before we begin, we would like to say that our hearts go out to the families in the Southeast who've been impacted by the tragic storms that occurred yesterday. This call is being simulcast on our website, and the replay will be available through May 28th 2011. A supplemental investor package, which includes GAAP reconciliations of non-GAAP financial measures referred to on this call is available on the Investors page of our website, at www.Selective.com.

Selective uses operating income, a non-GAAP measure, to analyze trends in operation. Operating income is net income, excluding the after-tax impact of net realized investment gains and losses, as well as the after-tax results of discontinued operations.

We believe that providing this non-GAAP measure makes it easier for investors to evaluate our insurance business. As a reminder, some of the statements and projections that will be made during this call are forward-looking statements, as defined by the Private Securities Litigation Reform Act of 1995.

Forward-looking statements are not guarantees of future performance, and are subject to risks and uncertainties. We refer you to Selective's annual report on Form 10K and any subsequent Form 10Qs filed with the US Securities and Exchange Commission for a detailed discussion of these risks and uncertainties. Please note that Select undertakes no obligation to update or revise any forward-looking statement.

Joining me today on the call are the following members of Selective's executive management team. Greg Murphy, CEO; Dale Thatcher, CFO; John Marchioni, EVP of Insurance Operations; and Ron Zaleski, Chief Actuary.

Now I'll turn the call over to Dale to review the quarter results.

Dale Thatcher - *Selective Insurance Group, Inc - EVP & CFO*

Good morning.

First quarter results were within our expectations. Underlying commercial lines profitability improved, and we achieved another quarter of commercial lines price increases.

For the quarter, we reported operating income per diluted share of $0.32, as compared to $0.12 a year ago. Results were driven by higher net-investment income from alternative investments, and favorable prior-year casualty reserve, as well as favorable catastrophe development.

The first-quarter statutory combined ratio was 102.6%; flat with the year-ago quarter. Catastrophe losses in the quarter were $7 million pretax, or 1.9 points; inline with our full-year guidance of 2 points. And they included approximately $5 million of favorable prior-year catastrophe development from 2010 hail losses that did not materialize.

Additionally, we had prior-year favorable casualty-reserve development of $4 million, or 1.1 points on a combined ratio. Partially offset by adverse "other property" development of $1 million.

Total statutory net premiums written were down 2% in the quarter, with commercial lines net premium written down 4%. We saw an improvement in the magnitude of return audit and endorsement premium in the first quarter, with return premium of $4 million. While still negative, this is an improvement from the $16 million return premium in the first quarter of 2010, and the $5 million returned in the fourth quarter of 2010.

Commercial Lines renewal peer price was up 2.8% for the quarter. And year-on-year retention improved one point, to 80.3%. Retention remained strongest for small business, while middle-market and large accounts are seeing the most competitive pressure.

We've modified the way we measure year-on-year retention to more closely approximate industry practice. In the investor package, we have provided comparable quarterly retention numbers back to 2008.

The commercial-lines statutory combined ratio was 100.6% in the first quarter. Commercial property performed well in the quarter, with an 86.6% statutory combined ratio, including 7.7 points of catastrophe losses.

Commercial Auto also had a good quarter, reporting a statutory combined ratio of 92.3%. Commercial Auto results were positively impacted by favorable prior-year development of 6.5 points from lower-than-anticipated severity. Primarily in the 2006 through 2009 accident years.

Workers Compensation results continue to show the negative impact of a soft economy. For the first quarter, statutory combined ratio of 122.8%. This includes about 9.6 points of adverse prior-year reserve development related to severity in the 2010 accident year.

Personal Lines net premium written grew 9% in the quarter, to $62 million. And the statutory combined ratio was 111.5%, which included 2.8 points of catastrophe losses.

While catastrophe activity was lower in the first quarter of 2011 compared to a year ago, we experienced an increase in non-catastrophe property losses of $9.1 million.

We continue to drive rate in Personal Lines, and have implemented 13 of the 38 anticipated additional rate increases so far this year.

There's been much discussion surrounding the new RMS Version 11 model since its launch in late February. The revised model incorporates increased vulnerably of construction assumptions, and increases the expected wind hazard further inland. Recognizing the differences in modeled losses for the same portfolio between the RMS and air -- hurricane models, we use a blended approach in determining the amount of reinsurance to purchase.

Based on these results, we recently purchased an additional $75 million layer of Cat cover. This brings the catastrophe excessive loss program to $435 million in excess of our $40 million retention.

As a result, a 1% probability or 1-in-100-year event was about 5% of shareholder's equity, and a 0.4% probability or 1-in-250-year event is approximately 18% of equity on a blended-model basis.

Turning to investments.

First-quarter after-tax net-investment income increased 20%, to $32 million, from a year ago. Alternative-investment income of $11.6 million pre-tax drove the increase. Each strategy in the Alternative portfolio generated income this quarter. The majority of the funds in our Alternative Investment portfolio report performance on a 1-quarter lag. The strength of the financial markets in the fourth quarter of 2010 allowed several of the general partners to harvest some investments, which strongly contributed to the results.

We would not expect the same magnitude of alternative income of the remaining three quarters of 2011.

The after-tax yield on fixed maturities was 2.8% for the quarter; flat with the last two quarters, but down slightly from the year-ago period, reflecting the low interest-rate environment.

Invested assets increased 3% from a year ago, to $4 billion. Our overall fixed-income portfolio maintains a very high credit quality of double-A, and duration of 3.4 years, including short-term investments. And 3.5 years, excluding short-term.

We continue to increase our investment in corporate bonds while maintaining our year-end 2010 exposure level to municipal securities. Equity exposure at March 31st 2011 was 1.9% of invested assets. Up slightly from last quarter, and down from 2.1% in March of 2010.

THOMSON REUTERS

We've deployed a high-dividend yield strategy for the large-cap domestic portion of the equity portfolio. The strategy is still designed to more closely track the S&P 500 than our historic equity portfolio. But at the same time, it's expected to generate a higher current yield than the index.

Compared to a year ago, the unrealized gain position improved to $75 million pre-tax at March 31st, 2011, from $54 million. Also noteworthy is the quarter-end, unrecognized gain position in the fixed-income held-to-maturity portfolio of $39 million pretax, or $0.46 per share after-tax.

Other-than-temporary-impairments, or OTTI in the quarter, were minimal, at $410,000 after-tax versus $5.4 million in the first quarter of 2010.

Surplus remained strong at $1.1 billion at March 31st, and stockholders equity increased 7%, to $1.1 billion from March 31st 2010. Book value per share increased 6%, to $20.06, from $18.97 at March 31st 2010.

Our capital position, as measured by the premium-to-surplus ratio, improved to 1.3-to-1; down from 1.4-to-1 a year ago, and flat with year-end 2010.

The dividend yield is currently 3%, providing a competitive return, while the stock trades at 85% of book value. We continue to monitor our capital levels, and review options to maximize shareholder returns.

Now I'll turn the call over to John Marchioni to review the insurance operations.

John Marchioni - *Selective Insurance Group, Inc - EVP Insurance Operations*

Thanks, Dale. Good morning.

Throughout the first quarter, we exercised underwriting discipline in a challenging Commercial Lines market. This is best demonstrated by the price we've achieved in Commercial Lines.

We've also made great progress in developing new and expanded Commercial Lines products to meet the evolving needs of our customers and agents.

We believe the combination of our underwriting discipline, granular pricing capabilities, expanded products and superior service will pave the way for success.

While market cycles will continue to affect industry results, we are focused on building an organization that will allow us to perform regardless of industry cycles. Both our inside and field underwriters are able to utilize our underwriting tools, and leverage the relationship with our agents to improve our overall mix of business.

Policy retention at the point of renewal is strongest on our highest-quality accounts. In the first quarter, this business -- which comprises about 58% of our model book -- retained a 2-points better-than-average, as we achieved renewal price increases of 1.7%. Our worst-performing business, comprising about 15% of our model book, showed retention levels 6 points below the average, as we achieved a 7.7% renewal price increase.

We monitor our book of business in this way to evaluate the success of our granular pricing strategy in a market that does not permit more broadbased renewal price increases. We believe that having the capability to target rate with this level of segmentation will be essential in achieving optimal results when the market begins to firm.

We remain focused on the long-term profitability of our Commercial Lines book of business. Maintaining discipline in an undisciplined market has created some topline pressure.

We are writing the majority of our new business in the highest-quality 4- and 5-Diamond range, while through disciplined underwriting and more aggressive pricing, we work to achieve profitability in our worst-performing business.

New business in the quarter was down 25% because carriers, including Selective, are aggressively trying to hold onto their best business, so that it does not go out to bid. That leaves lower quality business in the market, which has resulted in fewer submissions and lower hit ratios. We believe walking away from unprofitable new business is the right decision.

For the quarter, new business by segment was as follows -- one-and-done automated new business was down 21%, to $16 million, and middle market and large account new business was down 26%, to $31 million. We are making progress in diversifying the commercial lines book away from the more economically sensitive contractors book. Non-contractors now represent 64% of commercial lines premium. We are experiencing early success from our appetite expansion efforts and the new commercial lines products we've introduced over the past two years. Submission activity has been strong in our community and public services segment, specifically in the areas such as religious institutions, social services, paratransit, and in-home companion care.

We rolled out several new products in the technology arena and have more in the development pipeline. This provides agents with further opportunity to place business with Selective.

The workers compensation line continues to feel the strain of the economy and medical cost inflation, with results that were broadly in line with the fourth quarter, 2010. This is an industry-wide issue that we don't expect to be solved without significant underwriting, pricing, and claims discipline. In the quarter, we achieved a half point above the overall average renewal price increases on our workers compensation book of business.

Our claims initiatives, to improve case management, better assign claims in a more specialized model, and increase penetration with our preferred provider networks are on target to help us reach our overall claims cost reduction targets, particularly in workers comp.

The personal lines new business was down 8% in the quarter, largely due to our increased rate activity as well as additional underwriting restrictions, implemented to improve auto profitability. The mix of business is improving, as we write a greater distribution of low-frequency, high-retention business. The overall insurance for the book is also improving.

With its reception to price increases, the personal line market remains a study in contrast to the commercial lines market. We achieved pure renewal rate increases of 6.6% in the first quarter, with the 13 rate increases already implemented this year, we are on track for implementation of another 25 rate increases in 2011 that in total could generate an additional $16 million on our in-force book.

Not only have we had success increasing personal lines pricing, but our retention remains strong, at 85.5%.

While underlying trends are moving in the right direction for personal lines, results were negatively impacted in the quarter by non-catastrophe large losses. $2.6 million of the first quarter property losses were related to losses that occurred late in the fourth quarter of 2010. Large losses hurt the short-term profitability of our book, but we are confident we are taking the appropriate measures to improve long-term profitability of our personal lines. Given the magnitude of the first quarter property losses, we no longer feel we can meet our goal of overall personal lines profitability in 2011, but we expect to achieve combined ratios below 100 on a run rate basis in the latter half of 2011.

Now I'll turn the call over to Greg.

Greg Murphy - *Selective Insurance Group, Inc - Chairman, President & CEO*

Thank you, John, and good morning. Selective continues to manage the difficult commercial lines marketplace, as we just completed our eighth consecutive quarter of positive commercial lines renewal price. It's tough to drive price in the current soft market environment when certain competitors are aggressive to write new business. In this slow economic recovery, one must protect their renewal book because new business is volume taken from another insurance carrier. In addition, customers remain price-sensitive, which forces agent to shop business more broadly than they might otherwise. As John noted, there is a more noticeable trend towards carriers proactively getting out ahead of their renewals to protect their best business. This translates into fewer quality accounts coming to the market and in turn, lower new business submissions and related hit ratios.

It seems that we've reached the intellectual point where the collective weight of the mass points only to a firming commercial lines marketplace, higher reinsurance costs due to global events and the new RMS 11 model, higher claim costs for medical and related liability inflation, loss reserve releases that history shows will eventually turn into reserve increases, and lower-yield investment opportunities. You cannot defy gravity forever.

Industry commercial lines results will significantly worsen and the marketplace discipline will re-emerge. I believe that only those carriers with sophisticated underwriting and granular pricing will be successful in the next firming cycle. As a result of our underwriting capabilities, we've successfully increased rate for eight consecutive quarters. In addition, we continue our many claim initiatives that are expected to reduce loss costs by three points over the next three years, that include litigation management through more effective use and the management of staff and counsel, ongoing vendor management to ensure that we have the highest quality vendors at the best price to add expertise to our claim adjustment process, and more effective, integrated claim outcomes in the resolution of workers compensation and other casualty lines. We're also reviewing all of our customer touchpoints, to improve communication and service levels from already-high standards. By providing 24/7 access to billing, claims, reporting, and other information on our customer self-service portal, we are giving our customers what they want, when they want it.

The sourcing of our investment portfolio in 2010 has been very successful. We've been able to leverage the greater breadth of expertise at our disposal. We feel confident in the quality of our municipal bond portfolio, as a result of two exhaustive studies of the portfolio and the continuous monitoring of the holdings.

We've established a high dividend-yield strategy to help offset the low interest rates on our fixed income portfolio. We re-balanced our alternative portfolio last year to take advantage of increased investor interest and tax benefits. The alternatives performed very well in the quarter, with each strategy generating income.

A.M. Best is predicting the commercial lines industry to achieve a 2011 statutory combined ratio of 110. With 81% of our business in commercial lines, our overall 2011 guidance is to achieve a statutory combined ratio between 101 and 102, substantially below industry expectations. Our guidance does not include any expectations for additional favorable or unfavorable reserve development, but does include a two point catastrophe loss assumption. Weighted average shares at year-end are expected to be approximately 55 million.

Now I'll turn the call to the operator for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Marilyn Cameron; Macquarie.

Caroline Cameron - *Macquarie - Analyst*

My first question, I was just wondering, it seems that some competitors are actually a little bit more positive this quarter and seeing some improved stabilization in pockets of the market, and I was wondering what you thought might be driving some of that stabilization, and what you might feel it might take to get the middle-market and large-account business to be a little bit more competitive.

Greg Murphy - *Selective Insurance Group, Inc - Chairman, President & CEO*

Yes. I'll start with that and then let John.

We hear some of that, but I've got to tell you, we're not seeing that universally. I mean we're still seeing companies lead aggressively with Workers Compensation. We still see commission incentives out there on the comp side.

So we hear the rhetoric in the marketplace. We talk to our agents consistently throughout the year, and we're hearing pockets of some companies now starting to tighten up a little bit. But it's still, I would say, very aggressive for new business. And I want to say carriers are still leading with aggressive comp pricing that is problematic.

John Marchioni - *Selective Insurance Group, Inc - EVP Insurance Operations*

Yes. This is John. I'll add to just what Greg said, which I think is completely on-point.

Companies continue to take a different approach on new business. And we are seeing more companies trying to push for a little bit of rate on the renewal inventory. But then you see those same companies being overly aggressive for new business.

You are seeing, generally speaking, less submission activity across-the-board. You're seeing less quality business on the streets. And that's certainly affecting new business for us, as we maintain a disciplined approach to business acquisition.

So we do think there is some sense that the consumer side of this on the Commercial Lines side is maybe backing up a little bit in terms of driving that shopping. But unfortunately, you still have the insurance-agency producers who are trying to maintain some commission levels with a book of business that, because of the economy over the last couple of years, has shrunk. So that defensive posture continues to put business in the marketplace. And you have aggressive pricing for new business from some competitors.

So until that side of the market starts to turn, what you're seeing in terms of renewal behavior is not going to really push the market as hard as it should.

Caroline Cameron - *Macquarie - Analyst*

Okay. Thank you.

Greg Murphy - *Selective Insurance Group, Inc - Chairman, President & CEO*

[inaudible]

Yes. Go ahead.

John Marchioni - *Selective Insurance Group, Inc - EVP Insurance Operations*

Caroline, I would just add to that. Just, too, in terms of we have started to see some stabilization on the exposure side, as Dale mentioned in his prepared comments. Although we're still generating some return premium, that is way down, relative to where we were at on a 2010 basis.

Caroline Cameron - *Macquarie - Analyst*

Okay. Thanks. That's really helpful.

And then my next question is going on to Personal Lines. I was just wondering if you were seeing any improvement in exposure units. Just given the little bit of improvement in the economy. And then whether any of the recent growth makes you a little bit nervous, just given some of the recent Cat activity that we've seen.

Greg Murphy - *Selective Insurance Group, Inc - Chairman, President & CEO*

John, you want it?

John Marchioni - *Selective Insurance Group, Inc - EVP Insurance Operations*

Yes. From an exposure-basis perspective, you see a little bit of growth on the Auto side. I mean obviously home values continue to be fairly stagnant.

I'm sorry; the second part of the question?

Caroline Cameron - *Macquarie - Analyst*

Yes. Just that the recent growth that we've seen in Personal Lines, there's been a little bit more Cat activity in the first and second quarters. Does that make you nervous at all?

John Marchioni - *Selective Insurance Group, Inc - EVP Insurance Operations*

Well, yes. Thank you for the question. So clearly you're seeing a change in weather patterns, and we continued to see that throughout the first four months of the year, up to and including the events we saw yesterday.

We have over the last couple years and continue to drive a fair amount of rate through our property book on the home side. We think that needs to continue. We think the market has been fairly supportive of those rate increases.

I would say the other dynamic that's at play, and we've certainly been out in the market now with this, and other companies more recently as well -- is rating on a by-peril basis. So that you can start to build out more specific rates for wind and weather perils, and really go after those in an aggressive way.

So there's no question you're seeing a more-consistent change in the weather patterns. Not just personal, but commercial property needs to start being reflected in rate activity. We've certainly done it on the personal side. We're starting to do it on the Commercial Lines side. The market has obviously been much more supportive personally than it has commercially.

Caroline Cameron - *Macquarie - Analyst*

Okay. Great. Thanks!

Operator

Mike Grasher; Piper Jaffray.

Mike Grasher - *Piper Jaffray - Analyst*

Thank you. Good morning, everyone. Congratulations on this quarter!

I wanted to go back to Dale's comments around the capital management. Sort of the risk to capital falling here at about 1.28 or 1.3. What are the alternatives that you're thinking about? I mean given Greg and John's commentary around the potential for the market firming. What's left, in terms of share-repurchase, increasing dividend; those sorts of things?

John Marchioni - *Selective Insurance Group, Inc - EVP Insurance Operations*

Every quarter we do look at all of that. Obviously historically, we've used a multitude of methods for management of our capital. Including share buybacks and dividend increases. But also, we want to make sure that we have the appropriate capital to most fully participate when the market does finally firm.

Obviously everybody's been talking and hoping about a firming in the marketplace for some time. So that's certainly there as something that we have to consider. We don't want to empty the coffers and then not have the same kind of ability to participate in an upswing.

There's also obviously the possibility for acquisition if the right kind of an opportunity comes about. We're very careful about that, and we're not naive about the ability of this industry to make effective acquisitions. But we do think that that's also an appropriate thing to consider.

So all of those things are under consideration throughout the management, and at the board level.

Ron Zaleski - *Selective Insurance Group, Inc - EVP Chief Actuary*

And Mike if I could just add -- obviously, you've heard us always say, "Hope is not a strategy." We've had eight consecutive quarters of rate increases. We've been very effectively managing this cycle.

I know a lot of times we talk to our money managers and they say, "Look. Where's modeling? How does it evidence itself? Where's the relationship? How does that evidence itself?"

And I think the combination of the two and how effective we've been at doing that, and being kind of the Lone Ranger eight quarters out there is tougher on our agents to do that. But I will say that I've been in the business 30 years, now. I've been through three hard cycles in terms of firming. This is the first firm cycle that we'll go through where some carriers have sophisticated underwriting; other carriers don't.

And I just want to make sure that you guys are aware of --

If you only have a hammer and everything's a nail, and if you don't have sophisticated underwriting, you have no way to protect yourself against the carriers that do have it.

So my sense is that anybody that's weaker now, hoping for a firming pricing without that sophistication is going to find themselves getting weaker. Because they're going to be picked apart by the carriers that have sophisticated underwriting that will be able to go in and differentiate between accounts that today need price reductions versus the accounts that need significant price increases. So we want to be prepared to take advantage of that.

And again, I'll say we've never seen a cycle where you're going to go through that kind of opportunity with a big dichotomy in terms of intellectual capacity on the carrier side. So it's going to be an interesting thing, which I think will force a lot more take-unders; a lot more transitional noise in the industry. And unfortunately, it may be a shorter and less-steep cycle in terms of its length and the amount of increase.

Mike Grasher - *Piper Jaffray - Analyst*

Okay. Given all that, is it fair to say that you'll likely play close to the vest in terms of initiating or re-initiating any sort of share repurchase with the stock at these levels?

Ron Zaleski - *Selective Insurance Group, Inc - EVP Chief Actuary*

Well I think Dale answered all that extremely well. So I mean we look at everything, but we want you to understand that there's another dynamic out there. And it's not just a firming market. It's a firming market that will have the opportunity for carriers that have the knowledge base to be a lot more aggressive to write a lot more market share. That's the point that I'm just trying to add to what Dale said.

Mike Grasher - *Piper Jaffray - Analyst*

Okay. Fair enough.

And then if we look at the investment portfolio, certainly it's spiked here in terms of the pre-tax yield. Do you feel like with the investment funds moving higher, do you think you've sort of caught up from that perspective? And that we should probably see these yields move back to where they were sort of middle-of-the-year last year?

John Marchioni - *Selective Insurance Group, Inc - EVP Insurance Operations*

I'd say keep in mind that that yield is being impacted by the tremendous quarter the alternative investments had. Although obviously those are all performing better, and we expect to see them perform better than they have in the past, this is probably a pretty high quarter that we don't really expect to continually repeat itself over the course of this year.

I mean rates are still under pressure, as far as on the fixed-income marketplace. So there's not a whole lot of available yield out there without really stretching for yield. I mean the yield curve is fairly steep right now, so you could obviously extend duration to get more yield. But that's a pretty risky play, given expectations for inflation.

So we've pretty much stuck with that 3.5-year duration, because we think that's probably about the best spot to get the right kind of yield currently without really over-exposing ourselves to the risk of a spike in inflation.

So overall, you're not going to see the same kind of total portfolio yield that you saw in the first quarter. I don't think you're going to see that throughout this year. And again, driven primarily by the alternatives.

Mike Grasher - *Piper Jaffray - Analyst*

Okay. Thank you.

Operator

(Operator Instructions)

Doug Mewhirter; RBC Capital Markets.

Doug Mewhirter - *RBC Capital Markets - Analyst*

Hi; good morning. Just two quick questions.

One -- I just wanted to clarify I guess some semantics in your release. You said that you had about $7 million of cash new losses. But you said that that included $5 million of catastrophe favorable development.

So if I guess read that, interpret that correctly, does that mean you had $12 million of I guess gross Cat losses in the first quarter that was offset by $5 million of favorable development which netted to $7 million?

John Marchioni - *Selective Insurance Group, Inc - EVP Insurance Operations*

That's correct.

Basically we had for catastrophes that occurred during the first quarter, we had $12 million of losses. But there was in effect, we overbooked for expected Cat losses in 2010 by $5 million. So that's a favorable development of $5 million, for a net number of $7 million in the quarter.

Doug Mewhirter - *RBC Capital Markets - Analyst*

Okay. Thanks. That's helpful.

And my second question is, and I know it's very early. The storm activity in the early second quarter. Is there any indication about how that affected you in terms of claim counts? I know it was a bit west of your core markets, but it did kind of reach up into the Northeast, a bit.

John Marchioni - *Selective Insurance Group, Inc - EVP Insurance Operations*

I'd say you're right. It's very early, and we've not provided any kind of information or guidance with regard to losses on that.

But you guys are aware that we don't write home in North Carolina.

Doug Mewhirter - *RBC Capital Markets - Analyst*

Okay. Thanks. That's all my questions.

Operator

Bob Farnam;KBW.

Bob Farnam - *KBW - Analyst*

Hi, thanks. Good morning.

Would the 10 points of Workers Comp adverse development from Accident Year 2010? It's very different. Could you give us an idea maybe more of what specifically is driving the severity trend higher?

Greg Murphy - *Selective Insurance Group, Inc - Chairman, President & CEO*

Just generally across-the-board higher severity trends. And I think that from our standpoint, we factor in, in terms of on the medical side, a pretty good level of inflation relative to where we set our reserves.

So I think it's a combination of the increase in severity as a result of that, and the fact that we just see a spike up.

And we see that happen in different years, where you get a higher level of claims that have worse either body parts; whatever it is that drives that element, we do see that volatility year-to-year that happens. So it's nothing specifically that you can look at and say, "Well, this is a result of one certain specific thing in the underwriting or the book." It's just normal variation in the type of injuries that you get that differ year-to-year.

Bob Farnam - *KBW - Analyst*

Okay. And do you see? I've heard other companies complain about return-to-work issues with lacking jobs to return to. Are you seeing that factor in, as well?

John Marchioni - *Selective Insurance Group, Inc - EVP Insurance Operations*

That's a tougher part. For instance in the State of Pennsylvania, where you have to have someone out and continue the disability element until they have a job to come back to.

So yes, there are opportunities for people to maybe drag out the medical aspect if the job opportunities aren't there. So you have to be very aggressive in return-to-work programs. You've got to be very aggressive in capacity utilization. And those are things that you have to be on top of all the time.

John Marchioni - *Selective Insurance Group, Inc - EVP Insurance Operations*

We do see people staying out longer, and taking more meds than they have in the past. And those things are definitely driving up severity of losses.

Bob Farnam - *KBW - Analyst*

Right. Okay.

How about Workers Comp development in the prior few accident years. Like Accident Year '08 or '09? How are they shaping up so far?

Greg Murphy - *Selective Insurance Group, Inc - Chairman, President & CEO*

Some of the earlier ones generally are stable, actually. And it's slight favorable development in some of the earlier years. Not a lot.

I would say the year that the most amount of pressure on it, though, was the '10 year. 2010 accident year.

Bob Farnam - *KBW - Analyst*

Thank you.

Operator

(Operator Instructions)

Robert Paun; Sidoti & Company.

Robert Paun - *Sidoti & Company - Analyst*

Good morning!

I just had a question on the Commercial Auto book. Can you just give some more color on what you're seeing in that business?

I think we've seen recently some positive data in the trucking and transportation sectors. Have you seen that translate into more pickup in activity in Commercial Auto?

John Marchioni - *Selective Insurance Group, Inc - EVP Insurance Operations*

In terms of increased power units, you mean, and all that?

Robert Paun - *Sidoti & Company - Analyst*

Yes.

Greg Murphy - *Selective Insurance Group, Inc - Chairman, President & CEO*

No. Not necessarily. Again, we're an account underwriter. So we don't write a lot of monoline commercial auto.

The trends we see in the commercial auto line, for the most, track with the trends we see in other lines in terms of exposure base. I do think you had a lot of exposure units taken off the road by a lot of business over the last several years. You're starting to see that come back on line.

But generally speaking as an account underwriter, what we see doesn't necessarily differentiate itself for commercial auto than it would for other lines of business on the package side.

Robert Paun - *Sidoti & Company - Analyst*

Okay. Thanks.

And Dale, I think you gave the number for favorable reserve development in that Commercial Auto book. I think I missed that. What was that number?

Dale Thatcher - *Selective Insurance Group, Inc - EVP & CFO*

It was casualty in total was $4 million favorable development. For Commercial Auto itself, it was a $4.5 million favorable reserve development.

Robert Paun - *Sidoti & Company - Analyst*

Okay. Thank you. That's all I had.

John Marchioni - *Selective Insurance Group, Inc - EVP Insurance Operations*

Thanks, Robert.

Operator

(Operator Instructions)

I'm showing no further questions.

Greg Murphy - *Selective Insurance Group, Inc - Chairman, President & CEO*

Okay. Thank you very much, Operator. And if you have any follow-up matters, please contact Jennifer or Dale. Thank you very much.

John Marchioni - *Selective Insurance Group, Inc - EVP Insurance Operations*

Thank you.

Operator

Thank you for your participation. Your call has concluded. You may disconnect at this time.
