24-Apr-2014

Selective Insurance Group, Inc. (SIGI)

Q1 2014 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone. Welcome to the Selective Insurance Group's First Quarter 2014 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, Ms. Jennifer DiBerardino.

Jennifer W. DiBerardino
Treasurer & Senior VP-Investor Relations, Selective Insurance Group, Inc.

Thank you. Good morning, and welcome to Selective Insurance Group's first quarter 2014 conference call. This call is being simulcast on our website and the replay will be available through May 27th, 2014. A supplemental investor package, which contains GAAP reconciliations of non-GAAP financial measures referred to on this call, is available on the Investors page of our website, www.selective.com.

Selective uses operating income, a non-GAAP measure, to analyze trends and operations. Operating income is net income excluding the after-tax impact of net realized investment gains or losses, as well as the after-tax result 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 10-K and any subsequent Form 10-Qs filed with the U.S. Securities and Exchange Commission for a detailed discussion of these risks and uncertainties. Please note that Selective undertakes no obligation to update or revise any forward-looking statements.

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

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

Dale A. Thatcher

Chief Financial Officer & Executive Vice President, Selective Insurance Group, Inc.

Thanks, Jen, and good morning. We reported operating income for diluted share of $0.23 in the first quarter compared to $0.36 a year ago. The first quarter statutory combined ratio of 100.8% was up from 96.8% last year. Extreme winter weather was a big driver of results, but there were a number of unusual items that impacted the first quarter, both positively and negatively.

First, catastrophe losses for the quarter totaled $34 million or 7.5 points, compared to $1.6 million or 0.4 points in the first quarter of last year. The majority of these catastrophe losses were attributed to PCS defined CATS 31 and 32 in January, when the polar vortex event and snowstorms hit our 22 state Standard Lines footprint. Despite the catastrophe loss activity in the first quarter, we are still comfortable with our expectation for 4 points of cat losses for 2014.

Second, this quarter's results included some of the highest levels of non-catastrophe property losses that we've experienced in the recent years. The impact varied by line, but overall, non-cat property losses for the first quarter were about 6 points higher than the non-cat property loss quarterly average over the last three years. These non-cat property losses were primarily the result of roof collapses, frozen pipes and fires, which were often related to the extreme weather experienced throughout our footprint states.

Third, this quarter's results included $8 million or 1.7 points in other income for the March 2014 sale of renewal rights to our book of pooled public entity business. Although we did not solicit buyers, we decided to sell this very small and specialized book of business, when the opportunity presented itself, because it had significant production outside of our Standard Lines footprint and proved difficult to grow. Having said that, we are maintaining our significant commitment to individual risk public entity business, and will continue to look for opportunities to grow it.

Fourth, favorable prior year casualty development in the quarter was $14 million or 3.1 points compared to favorable prior year casualty development of $2 million or 0.4 points in the first quarter of 2013. The higher net favorable development was driven by stable workers compensation trends in the quarter with no development either favorable or unfavorable. Net favorable development in the 2014 first quarter resulted from continuing improving claims trends with general liability for the 2009 through 2012 accident years, and is reflective of the rigor and integrity of our reserving process.

Netting out the catastrophe development and the unusual items discussed results in an adjusted statutory combined ratio of 93.1% in the first quarter of 2014 compared to 96.8% a year ago. This improvement primarily reflects full year 2013 renewal pure price achieved of 7.6%, which is currently earning in at 7.3%.

After subtracting loss trends, the pricing actions taken in 2013 are lowering the combined ratio by about 2.5 points. Total statutory net premiums written were up 6% in the quarter, with Standard Commercial Lines up 7%. Standard Commercial Lines growth continued to be largely driven by renewal pure price, which was up 6.4% in the quarter, and retention which increased 1 point to 84%.

The ex catastrophe Standard Commercial Lines statutory combined ratio was 92.9% in the first quarter. This included a 2.1 point benefit to the statutory expense ratio, as a result of the public entity self-insured group sale.

As expected, commercial property and BOP were negatively impacted by weather losses in the quarter. On an ex-cat basis, these lines generated combined ratios of 99.9% and 97.0% respectively. Conversely, general liability and commercial auto reported strong results at 80.7% and 94.7%, excluding catastrophes respectively.

Personal Lines net premium written declined 2% in the quarter, reflecting our strategic non-renewal of dwelling fire business and a reduction in monoline homeowners. The Personal Lines statutory combined ratio ex-catastrophes for the quarter was 93.4%. Pricing continued to be strong in Personal Lines led by homeowners and we are seeing the benefits of our pricing success in results.

Our E&S operation grew net premiums written by 6% in the quarter and generated a profitable statutory combined ratio of 97.3%, excluding 0.6 points of catastrophe losses compared to 97.2% a year ago. As we continue to improve the profitability of our newest segment, we believe this business will perform in line with our overall expectations for the full year.

Turning to investments, first quarter after-tax net investment income was up 7% to $26 million. The increase was a result of higher income from alternatives and fixed income investments. Invested assets increased 1% over December 31, 2013. At 1.9%, after-tax new money rates on fixed income securities in the quarter were below our 2014 estimate of 2.25%. The overall portfolios after-tax yield of 2.3% remained flat from both a year-ago and year-end 2013.

The overall portfolio unrealized gain position increased from $79 million pre-tax at year-end 2013 to $105 million. Also, the quarter end unrecognized gain position in the fixed income held-to-maturity portfolio was $21 million pre-tax or $0.25 per share after-tax. Our fixed income portfolio maintains a high credit quality of AA- and a duration of 3.5 years, including short-term investments.

Surplus and stockholders' equity ended the quarter at $1.3 billion and $1.2 billion respectively. And book value per share was $21.09, up 2% from year-end 2013. Our premium to surplus ratio was up slightly from year-end at 1.5 to 1. Annualized operating ROE for the quarter was 4.5% and total ROE was 6.1%. This compares to our weighted average cost of capital of 8.6%.

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

John J. Marchioni

President & Chief Operating Officer, Selective Insurance Group, Inc.

Thanks Dale and good morning. The initiatives we continue to execute across the organization are positioning us well to achieve our stated profitability targets. While we cannot control the weather, we remain focused on the areas within our control and remain confident in our ability to meet our 2014 profitability goals. Our relationships with an elite group of independent agents are a competitive advantage for Selective; this is affirmed by the strong feedback that we have with our agents.

In addition to performing independent surveys, regular interactions with agents provide opportunities to communicate our strategy, while also receiving specific and actionable feedback. Currently, we have approximately 1100 independent agency relationships, which represent about 1900 storefronts. For Commercial Lines, Selective holds one of the top three spots in approximately 60% of our agencies who have represented us for five years or more.

Holding the top-three position in an agent's office provides us with a more consistent first and often last look at business opportunities. The strength of our relationships is also evidenced by our successful balancing of rate retention over the last five years.

In the first quarter, we achieved Standard Commercial Lines renewal pure price of 6.4% and retention improved 1 point from the year ago to 84%. Our ability to granularly price business resulted in pure rate of 5% and point of renewal retention of 89% on our highest quality accounts, which represent 57% of our Standard Commercial renewal book.

On our lowest quality accounts, we achieved pure rate of 12% and point of renewal retention of 78%. These accounts represent 8% of our Standard Commercial renewal book. From a new business perspective, we experienced greater competitive pressure in the quarter. This was evidenced by a decline in submission and quote activity compared to last year.

As a result, new business production within Standard Commercial Lines was down slightly at $69 million. Despite a recent heightening of competitive pressure, we are excited about the opportunities to grow our business in a disciplined and thoughtful manner in three main areas.

First, our E&S business, which we entered in 2012 through two acquisitions, provides both product and geographic diversification. The business is written across all 50 states and we have an opportunity to capitalize on retail agency relationships within our standard operating footprint to drive business to our E&S wholesale partners.

Second, we continue to build out our product portfolio by improving existing coverages and rolling out new products, while staying within the markets and product lines where we already have established expertise.

And third, we believe there are geographic areas within our Standard Lines footprint where we can add agency storefronts to increase market share without compromising our franchise value model. We look at this opportunity from two perspectives, maximizing both the amount of the overall market that our agents control and a share of wallet that we rate within each of our agent's offices.

As a general rule of thumb, if our agents controlled 20% of the market and we were able to garner a 15% share of wallet, the result is a 3% market share. As we currently stand at a 1% or less share in 17 states out of our 22 state footprint, this represents a significant growth opportunity.

Within Excess and Surplus lines, profitability improved over 2013 levels with a first quarter statutory combined ratio of 97.9% and total premium was up 6%. While growth in this quarter was tempered, given our conversion to a single underwriting guide for all of our wholesale agency partners, we remain confident in our ability to accelerate growth going forward.

E&S renewal pure price was up 4.1% in the first quarter and we continue to take aggressive underwriting actions on the poorest performing segments. Our expectations for E&S renewal pricing in 2014 is in the 6% to 7% range. In 2014, we will be implementing new policy administration technology within the E&S business, in an effort to automate workflows and improve efficiency. Initial wholesaler feedback regarding the system has been very positive and we expect our initiatives to help drive growth in this business moving forward.

Personal Lines profitability continues to improve after normalizing the impact of cat and non-cat property losses. Net premiums written were down 2% as new business declined 19% to $8 million, mainly due to a reduction in monoline homeowners.

Additionally, retention declined from 87% to 82% in the first quarter of 2014 in part due to our strategic non-renewal of dwelling fire policies as well as targeted non-renewal action on underperforming auto and home.

Personal Lines renewal pure price increased 6.8% in the quarter, which was slightly ahead of our expectations for the quarter, but in line with our 2014 expectations to achieve 6% to 7% renewal rate in Personal Lines. In homeowners, our statutory combined ratio was 121.7 including 23.6 points of catastrophe losses as we achieved renewal pure price increases of 10.9%.

Non-cat property losses in the quarter were 52 points, an increase of 9 points from a year-ago largely due to the extreme weather. We continue to target a homeowners combined ratio of approximately 90% in a normal catastrophe year and will drive the necessary rate in underwriting actions through the book to achieve this goal.

Personal auto produced 100.9% combined ratio in the quarter. Results were benefited by $2 million or 5.2 points of favorable prior year development. This reflects a continuation of recent reserving trend we have experienced within personal auto liability. Renewal pure price increases in the quarter were 3.6% and we expect improvement in this line as a result of continued rate and increasing the age of the book.

Now, I'll turn the call over to Greg.

Gregory E. Murphy
Chairman & Chief Executive Officer, Selective Insurance Group, Inc.

Thank you, John, and good morning. First quarter had some items that impacted our results in both directions. But overall, we continue to have confidence in our ability to achieve a 2014 ex-cat statutory combined ratio goal of 92%, and generate an ROE about 200 basis points higher than our cost of capital. Our ex-cat statutory combined ratio for the quarter was 93.3%, about 90 basis points above our first quarter budget.

In addition, we had unusually high non-catastrophe property losses that added 6 points to our overall statutory combined ratio, when compared with the quarterly average over the past three-year period. These losses were mostly offset by 3.1 points of favorable prior year casualty reserve development and 1.7 points from the sale of our SIG business.

In our experience, the early months of the year tend to be more competitive as carriers try to start off the year with strong premium production. We've heard from our regional managers that the first quarter was very competitive, but it remains to be seen whether this is the usual first quarter competition or market shift. Our ability to increase Standard Commercial Lines renewal pure price by 6.4% in the quarter is due to the hard work of our employees and agency clients.

Despite the increased competition, we are pleased with our ability to achieve rates in line with our 2014 guidance of 6% to 7% renewal pure price increases. In 2014, our overall earned renewal pure price increase is 7.3%, about 430 basis points above our expected loss trend. This will have the impact of reducing our combined ratio by approximately 2.5 points this year. Pricing, in combination with our underwriting and claims improvements, will help us achieve our 2014 goal.

For 2014, A.M. Best is forecasting a Commercial Lines combined ratio of 99.9% and a Personal Lines combined ratio of 99.2%. Their primary assumptions in the forecast are for less stable development and a more normal level of catastrophe losses. Including some level of normal GDP growth, they also forecast industry net premium written to increase only 4%, which indicates to us that rate is barely keeping pace with loss trend.

A.M. Best is also forecasting industry 2014 return on surplus to be in the 6% to 8% range. At these levels of return, and factoring in the ongoing low interest rate environment, publicly traded carriers could find their stock prices under pressure. The gap between rate and trend is the leading indicator for future performance. And given current industry pricing trends and the A.M. Best combined ratio forecast, the industry could struggle to meet its cost of capital in 2014. Additionally, the rate in underwriting improvements that the industry achieves in 2014 sets the table for 2015 performance.

Based on the first quarter results and what we currently see in the market, our 2014 guidance is as follows; an ex-catastrophe statutory combined ratio of 92%, which includes no prior year additional casualty development, 4 points of catastrophe losses for the year, after-tax investment income of approximately $100 million, weighted average shares of 57.4 million.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Vincent DeAugustino from KBW. Your line is open.

Vincent M. DeAugustino
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Thanks for taking the questions. Just to start off, Greg. To your point about the competitive pressures earlier in the year, I think based on what you guys had disclosed on pricing through February that maybe that the pace picked up just ever so slightly in March, and perhaps I'm just splitting hairs here, but if that's the case, does that speak to your commentary that might be kind of implying that pricing could pick up here as some of this early competitiveness in the year wanes as we work a little bit deeper into the year?

Gregory E. Murphy
Chairman & Chief Executive Officer, Selective Insurance Group, Inc.
A

You know Vince, I don't know if I would put that much creditability on month-to-month movements in the numbers. I think our commentary around what you see in the industry, I think based on some of the results we see in our competitors' release in terms of their pure price. And I would say what we really put a fair amount of confidence in is the CLIPS Towers Watson report, excuse me, their price indications. So I think we are curiously waiting that to come out for the first quarter, but we are not backing off our 6% to 7% Commercial Lines trend.

Vincent M. DeAugustino
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Okay, good. So, just one other kind of bigger picture question. We've been hearing more about how growing use of pricing analytics is helping drive more intelligent pricing and therefore that's kind of shrinking the amplitude of the pricing cycle. And so, just to kind of run with that, I'm just curious from what you've seen of the greater use of analytics has also shrunk, the standard deviation around the mean on prices insurers compete for a piece of business.

And the reason I ask is kind of just looking at that I'm wondering if that kind of dynamic would also lead to just less as far insured's actually looking at a quote, less reliance on just price alone and whether some of these service attributes that Selective is really based on, if that ends up helping you guys winning more business through this involvement. So I'm just kind of curious if you're seeing that play out or if you potentially expect that to kind of emerge as we see more analytics usage.

John J. Marchioni
President & Chief Operating Officer, Selective Insurance Group, Inc.
A

Vince, this is John. Let me take a crack at the couple of questions you had in there. With regards to customer focus or reliance on service rather than price, if you see convergence around pricing, because everybody gets more sophisticated, I would say there is no question. Their buyer habits vary from customer to customer. And I think there have always been customers who are going to put some sort of a value on service, and that will incent them to stay with the company or to go to a company, not necessarily with the lowest price.

And I would say that if you look at our retention and also our ability to maintain a top spot in a lot of agents' office is because we bring that to the table, and they don't just compete on price with our product. Now, that said, there are always going to be other segments of the customer base that are going to look at price first, there are producers that are going to sell on price. So that dynamic will always be there.

With regard to the marketplace generally, there has been I would say an increase in how companies build and deploy modeling capabilities to get more granular and matching price to risk, but I would say you still see a very wide variance from company to company, even though if they use modeling, as to what their model output would indicate account by account, so I don't think that's going drive convergence.

And I would say you also still see companies that are deploying their pricing strategies pretty much across the board, which I would say for the last couple of years has provided us new business opportunities for quality accounts that may have been a little bit overpriced that they failed to recognize. So in a perfect world, you would see that convergence. I don't think that's where we live at this point in Commercial Lines arena.

Gregory E. Murphy
Chairman & Chief Executive Officer, Selective Insurance Group, Inc.
A

Vince, this is Greg, and I would add that the information, if you guys looked at it in the world that you live in, the information where you are showing Commercial Lines all over the place relative to accounts segment, and to really fix that industry wide, you need to have a more holistic movement in rates, a much higher rate structure, so it will allow the flexibility to increase rates on the segmentations where you need, but also decrease rates more along the information ratio.

As John said, that's like a scattergram right now across everyone in the sectors of performing business and we constantly try to move closer and closer to that, but the industry is all over the place. And I think unlike the previous market cycles, this could be a cycle where not everybody benefits from the increased price, because there is adverse selection out there that we could get weaker and not know it, because like John mentioned, they could be losing some of their better accounts as they socialize rate across their book, lose some of their better accounts and then underwrite more of the worst accounts in the market that other companies are putting into the marketplace.

So it's an interesting dynamic, because this is the first I'll call it mini cycle that we've gone through where there is a varying degree of sophistication of Commercial Lines. So you got to understand that you are not playing with competition at the same level of sophistication, it's all over the place, which then makes market pricing more difficult. I know it's kind of a long answer, but that's how the transition of the Commercial Lines marketplace is today.

Vincent M. DeAugustino
Analyst, Keefe, Bruyette & Woods, Inc.
Q

That's really helpful, and just one quick numbers question. On the renewal rights sale, would there be potentially any other impact to lines like workers comp where we might be seeing premiums come out or is that just all within the other line?

Dale A. Thatcher
Chief Financial Officer & Executive Vice President, Selective Insurance Group, Inc.
A

It's basically the sales price is all within the other income, but obviously the other income then gets allocated to the various lines of -- Commercial Lines of business, so there is a small impact in every single line -- commercial line of business.

Vincent M. DeAugustino
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Okay. If not for the by line because it's clearly doing that reconciliation probably [ph] doesn't (25:43) make sense in this venue, but would you go to say what the aggregate premium production was from that business?

Dale A. Thatcher
Chief Financial Officer & Executive Vice President, Selective Insurance Group, Inc.
A

Yes, it was approximately $38 million.

Vincent M. DeAugustino
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Okay great. Thank you very much.

Operator: Thank you. Our next question or comment comes from Bijan Moazami from Guggenheim. Your line is open.

Bijan Moazami
Analyst, Guggenheim Securities LLC
Q

Hi good morning everyone. I have a couple of questions for John and Greg and then a follow-up for Dale. The first question is a follow-up really to a previous question on rate increases. One of your competitors, Travelers, got about 6.7% rate increase and they were saying the slowdown is not because there is more competition or they have more of an appetite to gain market share, but just because there are so fewer accounts that need double-digit rate hikes. So the point is that I really see a little bit of a dichotomy between John's comment about a decline in submission in quote versus what Travelers were saying in their conference call and just wanted to reconcile those points.

John J. Marchioni
President & Chief Operating Officer, Selective Insurance Group, Inc.
A

So, Bijan, I will take a crack at it and then Greg can follow on. What I would suggest is, Greg indicated what the recent pricing surveys and recent disclosures from competitors around a drop-off in rate level that we're actually experiencing. If you believe that rate is starting to come down a little bit marketwide then you could follow that through and say that as a result of rates coming down, there is less pressure on agents to shop the renewals because the customers getting smaller increases are not necessarily pushing them to market their renewal, and that would result in less submission activity and less new business opportunities. And I think that's how you would try to piece that together.

Gregory E. Murphy
Chairman & Chief Executive Officer, Selective Insurance Group, Inc.
A

And I would say relative to overall rate where you see it, it's different for every company depending on where they are today relative to their level of profitability and where they are on targets, so I think it's tough to make company to company comparisons without understanding where their underlying fundamentals are, where their folds are. But I would say that as you settle back, you need to think about rate equaling trend as you start to get to a more stable environment. And if that's your interpretation of their conference call, that is very plausible.

Bijan Moazami
Analyst, Guggenheim Securities LLC
Q

I see. And then as far as the loss costs trend of 300 basis point goes, where is that coming from and is it accelerating or decelerating, so effectively is the margin expanding or decreasing between the two numbers?

Dale A. Thatcher
Chief Financial Officer & Executive Vice President, Selective Insurance Group, Inc.
A

The loss trends have been pretty stable over the last four to five years at roughly 3%. I mean it does fluctuate a bit between 2.8% and 3.1% or whatever. So it's – but it has been relatively stable so we are really not seeing a lot of movement in that on an overall basis. So really the only movement that we do see in overall loss trends quite frankly is our own internal efforts to reduce losses both on the claims side and on the underwriting side.

Bijan Moazami
Analyst, Guggenheim Securities LLC
Q

So no direct correlation between that loss trend and potentially the 3.1 points reserve releases that you had during the quarter?

Dale A. Thatcher
Chief Financial Officer & Executive Vice President, Selective Insurance Group, Inc.
A

No, there is no change in loss trends that has led to that release in reserves. Basically it's just our analysis of it. And really the biggest driver quite frankly in having a larger number this quarter is the fact that we had no development on workers comp and we have been seeing adverse development on workers comp. So, once you remove that out of the equation, the net number allows all the positives that we've seen in all the other lines to truly show through.

Bijan Moazami
Analyst, Guggenheim Securities LLC
Q

And one last question before I re-queue, I was wondering if you could clarify a little bit between cat losses and non-cat property losses. In particular if you have a winter freeze and you have a sprinkler freezing, would that go into property non-cat loss, and is there any kind of seasonality in that item throughout the year, because you were pointing out that a [ph] six point (29:52) above historical average. I'm just trying to figure out what the seasonality of that is throughout the year.

Dale A. Thatcher
Chief Financial Officer & Executive Vice President, Selective Insurance Group, Inc.

A

Sure, so basically what transpires is, if a particular loss can be attributed within the date range that PCS assigns to an individual catastrophe, then it falls into the catastrophe loss category. If however it is a loss that develops over a little bit longer period of time, oftentimes a freezing pipe or ice damming on the roof or even sometimes the roof collapse, so it can't be necessarily attributed to a precise date of loss that would put it into the PCS range would make it a non-cat property loss, even though we would know that it was weather related.

Those occur – obviously every single quarter has non-cat property losses in it. There is some volatility, and you've got a number that is not necessarily seasonal, I mean you will see it with thunderstorms in the spring time, you'll see it occasionally with -- actually thunderstorms in the summer time also and early winter freezes in the fourth quarter, all of those things can lead to higher non-cat property losses in any given quarter, but every single quarter has non-cat property losses.

Bijan Moazami
Analyst, Guggenheim Securities LLC

Q

Great. And one very last quick question, on the public entity renewal rights, is there any further benefit coming through that expense ratio going forward, so is there any further payments on top of that $8 million?

Dale A. Thatcher
Chief Financial Officer & Executive Vice President, Selective Insurance Group, Inc.

A

No, it's all recognized here in the first quarter, there is no ongoing commitment.

Bijan Moazami
Analyst, Guggenheim Securities LLC

Q

Okay, great. Thank you.

Operator: Thank you. [Operator Instructions] Our next question or comment comes from Scott Heleniak from RBC. Your line is open.

Scott G. Heleniak
Analyst, RBC Capital Markets LLC

Q

Hi, good morning.

Dale A. Thatcher
Chief Financial Officer & Executive Vice President, Selective Insurance Group, Inc.

A

Good morning, Scott.

Scott G. Heleniak
Analyst, RBC Capital Markets LLC

Q

Just wondering if you could talk about the new business environment, I know you touched a little bit of it in your comments, but was there any particular class of business in the first quarter coming in that you maybe thought you were going to deal with to grow your new business and it proved to be a little more competitive, anything at all that stands out there?

John J. Marchioni
President & Chief Operating Officer, Selective Insurance Group, Inc.
A

Scott, this is John, I would say the pressures we saw or the slight reduction in submission activity was fairly consistent across class and region. There is nothing really that stands out. Now part of it is, we are a balanced writer on the Commercial Lines side and our mix of business across the segments that we continued in is fairly balanced. We've talked over time about the contractors-noncontractors mix, but even within that the contractors segment is a fairly balanced mix. So, I would say there is nothing there that drives our performance that we would look at and say, because that became more competitive, it impacted overall new business that way.

Scott G. Heleniak
Analyst, RBC Capital Markets LLC
Q

Would you say those comments are similar for the E&S unit as well as the Commercial Lines?

John J. Marchioni
President & Chief Operating Officer, Selective Insurance Group, Inc.
A

Yes, I would say E&S is a little bit of a different story, just in that we continue to work through integration, we continue to convert to a single set of underwriting guidelines and product and pricing structure, as we integrated together our two operations. And I do think that causes a little bit of internal distraction as we go through that, and I would say that probably impacted our new business production in the first quarter.

When I would say that through that combined with what is soon to be a rollout of a new technology platform, which will improve ease of doing business will create those opportunities going forward. So I would say that may be as much about some of our internal integration work as it was if there are any market change in E&S.

Scott G. Heleniak
Analyst, RBC Capital Markets LLC
Q

Okay that's helpful. And then on Personal Lines, you guys talked about not renewing some monoline homeowners accounts and some fire accounts. And I know you guys have been doing that essentially for the past year or so, and I'm just wondering how far along you are in this process, is that something we should continue to expect to see throughout 2014?

John J. Marchioni
President & Chief Operating Officer, Selective Insurance Group, Inc.
A

Yes, so on the dwelling fire, dwelling property line that renewal – the non-renewal of that book entirely started in January of this year, and actually in New Jersey which is probably the biggest part of our dwelling fire book, that's due to start in July of this year. So that's -- you will continue to see that put pressure on retention levels, but again that was not a major line of business for us.

So the impact is not going to increase on a go-forward basis. With regard to, there was a couple of targeted books of business on the homeowner side that weren't too heavily balanced towards monoline home that we continue to take action on, and you will continue to see that at a similar pace over the balance of the year.

Scott G. Heleniak
Analyst, RBC Capital Markets LLC
Q

Okay. And then the final question is, no development on workers comp after you had seen it past few quarters and was there anything in particular in any accident year or anything in particular you saw in the trends that made you feel better that looked a little better why that didn't happen, why that was essentially neutral?

Dale A. Thatcher
Chief Financial Officer & Executive Vice President, Selective Insurance Group, Inc.

A

It's just -- I would say that all of the accident years performed in a much narrower range this past quarter. So you did still have some accident years with very slight negatives and other accident years with very slight positives, and net-net they all evened each other out. So it was fairly well behaved across the board, and to me that's a very good sign also, not just that the overall netted out to a zero, but all of the accident years were fairly well behaved in a narrow band.

Scott G. Heleniak
Analyst, RBC Capital Markets LLC

Q

Yes, absolutely.

Gregory E. Murphy
Chairman & Chief Executive Officer, Selective Insurance Group, Inc.

A

Based on the historical development in the line and obviously that's increased our more recent picks over time, that I think gives us a little bit more confidence in our selections today.

Scott G. Heleniak
Analyst, RBC Capital Markets LLC

Q

All right, that's all I have. Thanks.

Operator: Thank you. [Operator Instructions] And I'm currently showing no further questions or comments at this time.

Gregory E. Murphy
Chairman & Chief Executive Officer, Selective Insurance Group, Inc.

Well, thank you very much for your participation in the call this morning. If you have any follow-up questions, please contact Jennifer or Dale. Thank you very much.

Operator: That concludes today's conference call. Thank you for your participation. You may disconnect at this time.