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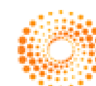
SIGI - Q2 2014 Selective Insurance Group Inc Earnings Call

EVENT DATE/TIME: JULY 31, 2014 / 12:30PM GMT



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PRESENTATION

Operator

Good day, everyone. Welcome to the Selective Insurance Group's second-quarter 2014 earnings release conference call.

At this time for the opening remarks and introductions, I would like to turn the call over to Senior Vice President, Investor Relations and Treasurer, Ms. Jennifer DiBerardino.

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

Thank you. Good morning and welcome to Selective Insurance Group's second-quarter 2014 conference call.

This call is being simulcast on our website and a replay will be available through September 2, 2014. 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, 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 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 10-K and any subsequent Form 10-Qs filed with the US 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 Thatcher, CFO; and Ron Zaleski, Chief Actuary.

Now I will turn the call over to Dale to review second-quarter results.

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

Thanks, Jen, and good morning.

In the second quarter, we delivered a 91.6% statutory combined ratio, excluding catastrophes, which is on track to achieve our 2014 goal for a 92% ex-CAT statutory combined ratio. On a year-to-date basis, this metric stands at 92.5% as the benefits of earned rate in excess of loss trend and our underwriting and claims initiatives work their way through the book.

Operating income per diluted share for the quarter was $0.46, compared to $0.42 a year ago, as investment income and underwriting results showed year-over-year improvement.

The second-quarter statutory combined ratio was 97.5%, compared to 97.7% a year ago, with the improvement partially masked by elevated levels of catastrophe and non-catastrophe property losses. Included in our quarterly results were $27 million, or 5.9 points, of catastrophe losses that were primarily attributable to storm activity in the Midwest. Last year, catastrophe losses were $20 million, or 4.6 points, for the quarter.

Non-catastrophe property losses this quarter were unusually high at approximately $73 million, or 15.7 points on the combined ratio, which was 4 points higher than the year-ago quarter. The losses were primarily the result of weather-related damage throughout our footprint states.

Favorable prior-year casualty development in the quarter was $17.5 million, or 3.8 points, mainly due to ongoing favorable claim trends in our general liability line. There was also modest favorable development in commercial and personal automobile liability. Workers' comp reserves were stable again this quarter with no development, either favorable or unfavorable, for the line.

Our growth rate in the quarter slowed, with total statutory net premiums written up 4%. This reflects an increased level of competition on new business and our targeted exposure reductions in personal lines.

Standard commercial lines were up 4%, while personal lines declined 1%. Conversely, we saw strong 16% net premium written growth in our excess and surplus lines. In standard commercial lines for the quarter, we successfully achieved renewal pure price increases of 5.9%, while retention declined slightly to 82% from 83% a year ago.

The standard commercial line statutory combined ratio for the quarter was 95.5%, or 91.9% when excluding the 3.6 points of catastrophe losses.

Looking at results by line of business, general liability and commercial auto posted strong quarters, with statutory combined ratios of 80.7% and 93.5%, respectively. Workers' compensation improved by over 6 points on a calendar-year basis to 112.1% as we continue to focus on profitability improvement for this line.

Personal lines net premiums written declined 1%, reflecting our strategic nonrenewal of dwelling fire business and a reduction in monoline homeowners that we discussed on our first-quarter call.

As expected, retention declined to 82%, compared to 87% in the prior year. Renewal pure price achieved in the quarter was 6.5%. The statutory combined ratio of 106.1% in the quarter was driven by catastrophe losses of 17.1 points. The combined ratio on an ex-CAT basis was a strong 89%, which is a 3.2-point improvement over a year ago.

Net premiums written for our E&S operation grew 16% in the second quarter to $38 million. The statutory combined ratio was 95%, excluding 4.9 points of catastrophe losses, demonstrating the progress we continue to make in improving the profitability of this book in line with our overall goals for 2014.

We successfully completed placement of our July 1, 2014, excess of loss reinsurance treaties. We renewed both the casualty excess of loss and the property excess of loss treaties with some enhancements in terms and conditions. The casualty excess of loss treaty provides $88 million of coverage in excess of $2 million retention, while our property treaty provides $38 million of coverage in excess of $2 million retention.

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Rates on the program were reflective of the soft conditions in the reinsurance market.

For investments, second-quarter after-tax investment income increased 7% from last year to $27 million and remains on track with our 2014 guidance. The after-tax yield on the portfolio of 2.3% remained flat from a year ago, while investment assets increased 3% to $4.7 billion compared to December 31, 2013. At 2.25%, after-tax new money rates on fixed-income securities in the quarter were in line with our 2014 estimate.

The overall portfolio unrealized gain position increased from $79 million pretax at year-end 2013 to $145 million pretax at the end of the second quarter. Also, the unrecognized gain position in the fixed-income held-to-maturity portfolio was $21 million pretax or $0.24 per share after tax. Our fixed-income portfolio maintains a high credit quality of AA- and duration of 3.6 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 $21.96, up 6% from year-end 2013.

Our premium to surplus ratio was in line with year-end at 1.4 to 1. Annualized operating ROE for the quarter was 8.7% and total ROE was 9.7%. This compares to our weighted average cost of capital of 8.9%.

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

John Marchioni - *Selective Insurance Group, Inc. - President, COO*

Thanks, Dale.

Weather once again played a significant role in the quarter's overall profitability; however, underlying results continue to improve. This demonstrates the progress we have made with our underwriting and claims initiatives in successfully achieving overall renewal pure pricing of 5.8%.

Topline growth for standard commercial lines has become more challenging, due to an increasingly competitive marketplace, as carriers hang on tightly to their renewal books while aggressively pursuing new business with lower pricing.

Additionally, given the still recovering economy, there are less new business opportunities. This is evident in our submission and quote activity, which was lower in the quarter from last year. Despite current market conditions, we are maintaining our new business pricing and underwriting discipline.

As rate changes for Selective and the industry have declined in recent quarters, our underwriters use sophisticated underwriting tools to help them balance the rate, retention, and profitability of their books of standard commercial lines of business. As a result, we achieved pure rate of 5% and point-of-renewal retention of 89% on our highest-quality accounts through the first six months of the year. These accounts comprise 55% of our standard commercial lines renewal book.

On our lowest-quality accounts, we achieved pure rate of 12% and point-of-renewal retention of 75%. These accounts represent 8% of our standard commercial lines renewal book.

For excess and surplus lines, underlying results demonstrate the progress we have made in refining the book. Following our conversion to a single underwriting guide for all of our wholesale agency partners, growth in this line accelerated to $38 million, up 16% from a year ago, including a 2.7% increase in renewal pure price.

While we are very satisfied with our progress in this segment, there remains significant untapped potential, both within our standard operating footprint and outside of it. We expect to roll out a significant upgrade to our technology platform in the third quarter, which we fully expect will make us one of the easiest companies to do business with.

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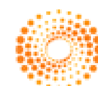

On an ex-catastrophes basis, the personal lines statutory combined ratio improved by 3.2 points in the quarter. Net premiums written declined 1% as new business declined 11% to $10 million, largely due to a reduction in monoline homeowners' business. Also, our retention declined from 87% to 82% in the second quarter of 2014, partly due to our strategic nonrenewal of dwelling fire policies, as well as targeted nonrenewal actions on underperforming auto and home business. Personal lines renewal pure price increased 6.5% in the quarter.

For homeowners in the quarter, our statutory combined ratio was 90.5%, excluding 34 points of catastrophe losses, while we achieved renewal pure price increases of 9.4%. Non-CAT property losses in the quarter were 45.7 points, an increase of 7 points from a year ago, and were primarily the result of higher weather frequency.

We continue to target a homeowners' combined ratio of approximately 90% in a year with a more normal level of catastrophe losses. We will drive the rate necessary to achieve this goal.

Personal auto generated a statutory combined ratio of 100.2% in the quarter, which included the benefit of $2 million in favorable prior-year casualty reserve development. This reflects a continuation of recent favorable reserving trends that we have experienced within personal auto liability.

Renewal pure price increases in the quarter were 3.8%, and we expect improvement in this line as a result of continued rate increases and aging of the book.

In conclusion, we are unwilling to sacrifice long-term profitability for short-term production and are carefully monitoring the price and quality of new business to best position us in the market. Regardless of market dynamics, we believe that our strong relationship with agents, our technology, and our employees position us well to grow in a thoughtful and disciplined manner.

Now I will turn the call over to Greg.

Greg Murphy - *Selective Insurance Group, Inc. - Chairman, CEO*

Thank you, John.

For the first half of this year, we have experienced an ongoing, higher level of catastrophic events, a persistently low interest rate environment, and, counterintuitively to us, a weakening of industrywide commercial lines pricing. Our commercial lines renewal pure price increases continued to significantly outpace the industry.

For the first six months of 2014, we expect our 6.1% renewal pure price to be about 200 basis points above the CLIPS pricing survey. As you know, the key measurements in assessing underwriting results are, one, rate versus loss trend; two, the mix of existing business; and three, new business and retention ratio. We are very comfortable with our successful execution on these strategies to help us accomplish our 2014 ex-CAT statutory combined ratio target of 92.

Year to date 2014, our estimated overall earned renewal pure price increase of 7% is about 400 basis points above expected loss inflation. This increase will have the impact of reducing the combined ratio by approximately 2.5 points. Pricing, in combination with underwriting claims improvements, will help us achieve our 2014 profitability goal.

I am pleased with the underlying results and believe they demonstrate the significant organizational investments we have made to provide our underwriters and claims professionals with the best tools possible to achieve consistent profitability.

I'd like to highlight a few of the initiatives. One, we have been achieving rate above trend in both commercial lines and personal lines for significantly longer than our industry peers, and we expect to attain overall 2014 renewal pure price increases of 6%.

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Driving rate in personal lines is important, particularly in homeowners, where industrywide pricing is deficient. For the first six months, our homeowners renewal pure price increases were 9.2%. Higher expectations of what a new normal might be for catastrophe losses should lead to greater industry pricing discipline.

Two, we are encouraged by the stability in our workers' compensation book over the past couple of quarters. While still a work in progress, we have successfully increased rate over loss trend and implemented a number of underwriting improvements designed on writing lower-hazard risk business.

Additionally, a number of claims initiatives we have implemented to achieve better outcomes. The new strategic case unit is demonstrating the benefits expected from implementing a specialized approach to more complex cases. Now fully staffed, this unit handles 100% of the expected higher-risk dollar claims.

Supported by escalation risk modeling and a new medical director resource, unique strategies are applied in the management of these complex claims. The Company is consolidating all workers' compensation claim handling in our Charlotte office to best supply focused expertise and segmentation strategies.

We are very pleased with the progress in our excess and surplus lines operations, as growth accelerated in the second quarter and we are on target to achieve our 2014 profit goal.

Considering the higher level of catastrophe losses, our catastrophe loss assumption has been increased for 2014 from 4 to 5 points. As part of our overall planning process, we will be evaluating the 2015 catastrophe assumption.

Based on the year-to-date results and our current view of the marketplace, our 2014 guidance is as follows. An ex-CAT statutory combined ratio of 92, which includes no additional prior-year casualty development; 5 points of catastrophe losses for the year; after-tax investment income of approximately $100 million; and weighted average shares of 57.4 million.

Now I will turn the call over to the operator for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Bijan Moazami.

Bijan Moazami - *Guggenheim Partners - Analyst*

When I look at your statutory results that you provided in your supplement, there are two lines of business that are working somewhat different than the industry. So, for instance, auto -- commercial auto, you are running 93.5 combined ratio. You are growing it. You are doing pretty well when the industry and Travelers, in particular, is having significant problems.

Vice versa in the workers' compensation, you have a significant underwriting loss. You are shrinking it when, in fact, everyone else is having significant underwriting profit. So the question is why those two lines of business for you guys are so different than the industry average?

Greg Murphy - *Selective Insurance Group, Inc. - Chairman, CEO*

Let me start with that and I will let others weigh in on it.

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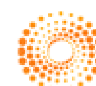

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I think when you look at our commercial auto book, it is really the segmentation of the type of business that we write in that. We don't write a lot of the large over-the-road [callers], and so when you look at the kind of gross weight vehicles that we write in our commercial automobile book, it is a very different makeup of the industry and I don't think our overall book is similar to what you see in the industry.

And our trends, in terms of loss performance, have been very consistent. We see a very mild uptick in the 2013 year and maybe something -- very mild into 2014 as well, but nothing really unusual in that. That's also a line that we have gotten significant rate above trend in the marketplace for the past several years.

John Marchioni - *Selective Insurance Group, Inc. - President, COO*

I will add on the comp side. I agree with what Greg is saying relative to commercial auto. Our performance, I think, has generally been better than the industry's over a long period of time.

But on the workers' comp side, I guess a couple of things. Number one, we've recognized the need to improve our performance over the last couple of years. We have talked about those plans. You are starting to see the benefits of those plans and we expect to see those continue going forward, especially on the claims side. On the underwriting side for us, it is about really starting to change the mix of business to become more of a competitive market for lower hazard, smaller work [comp], which has not necessarily been a big part of our mix of business.

What I will say, though, is I guess I would challenge the notion that industry performance is all that good on the workers' comp side. There are a couple of companies, I think, who are putting up some good results, but generally speaking, the industry is still above where you would expect them to be. And I would add to that that when you look at what's happening with the base rates, there are still a lot of states where either NCCI or the individual state rating bureau is filing very high indications and not getting significant rate increases approved.

So I would argue also that base pricing in workers' comp, for the most part, is below where it should be, and I think that, at some point, will start to reflect itself in industry performance as well. So as a result of that, we are maintaining our stance relative to underwriting and pricing discipline in that line.

Bijan Moazami - *Guggenheim Partners - Analyst*

Great. And I guess Greg mentioned that you guys are concentrating your claims operation in Charlotte for the workers' comp. Could you elaborate on that?

John Marchioni - *Selective Insurance Group, Inc. - President, COO*

Yes, sure. So, there are really two pieces to that. The first thing that we did, starting last year, was to create a strategic case management unit. That was built out in our Charlotte operation. Again, we had a significant regional operation in Charlotte for quite a while now. We are just building out around that.

So we started by building out a strategic case management unit that handles the high dollar or claims that have the potential to become high-dollar claims. We have staffed that operation up. We've brought in some folks from the external market and combined it with some of the talent we have inside and have that operation fully running.

The second step was to take the workers' comp teams that are handling either the met only or the more routine loss time claims and moved those from our five regional offices into Charlotte, and we felt a couple of things. Number one, it's a great market in terms of talent. Number two is it gives us the opportunity to build scale in that operation and build a little bit more specialization in the claims handling model than we have, as well as having some what we think is very talented on-site supervision for those entire teams.

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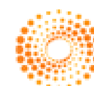

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That's in process. I would say we're about two-thirds through the staffing up of that operation. We are getting close to the point where all new claims will be going into that unit. We think that's a big part of our claims improvement going forward, and we think we've got the talent and the structure now to really start to see benefits come through that.

Bijan Moazami - *Guggenheim Partners - Analyst*

All right. One last slide in for Dale, silly question, what is non-CAT weather for the second quarter? So, what is it -- tornado, hail, or is it something else?

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

Basically, it is storm losses that don't accumulate to the point where PCS assigns a storm number. So, it can be any kind of a weather-related property loss, but does not rise to the level of that PCS indication.

I know that some companies define CAT losses themselves. We have never gotten into that habit because we didn't want to get into a debate as to whether or not it was a CAT or not a CAT, so that's why we adhere to the PCS standard.

Bijan Moazami - *Guggenheim Partners - Analyst*

Wonderful. Thank you so much.

Operator

Vincent DeAugustino, KBW.

Vincent DeAugustino - *Keefe, Bruyette & Woods - Analyst*

Just to start with John. To your comment on ease-of-use technology, one of the arguments that we have heard out there is that with some of these technology deployments and then, second, in some cases with policy administration actually being extracted out of the agent's office, that's making agencies more efficient as the carriers bear more of that workload and, consequently, the second argument there is that the commission structure should reflect that as far as that lower workload.

So, as we think about you guys deploying ease-of-use technology, I'm curious if you buy into that thought process on the commission side or should we always think about you guys being sort of the gold standard on the agent comp side?

John Marchioni - *Selective Insurance Group, Inc. - President, COO*

It's a great question. So, I will take it in a couple of pieces.

On the agency technology, what was in the prepared comments was focused more on E&S, but the same concept applies for our standard insurance operations. We have always focused on being an easy company to do business with and that continues to be our focus.

The technology itself is not necessarily where you are seeing work migrate from the agency to the company. I think actually as more and more companies roll out proprietary systems, it actually becomes a little harder on the agency because their processors, their CSRs, or their producers need to understand several different technologies in terms of entering business into those systems.

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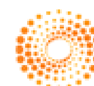

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Now that said, we have been very vocal and had a lot of conversations with our agents about the servicing model of our common customers needing to change over time because we do think, much like other service industries, our customers are demanding more and more of an omnichannel-type servicing environment, where they could choose the manner in which they engage us and they engage our agents relative to postacquisition servicing.

That, I think, is where as we start to move down that path, and we're having a lot of internal discussions, as well as discussions with our agents on what that should look like, to the extent that work starts to move, because we are still in an environment, as most companies are, where most postacquisition servicing work is still done by the agent. That is what I think will start to migrate over time, and as that work starts to migrate, I think it does force a discussion relative to compensation.

Now, that doesn't necessarily mean overall compensation levels drop; it may. But I think what you may also think about is the compensation structure that -- the relative compensation structure between new and renewal business may start to shift. Because we would expect that as we start to take over more servicing, agents are able to rededicate more of their resources towards acquisition, and you may change your compensation philosophy accordingly to drive some of that behavior.

That's a longer-term discussion that we're going to continue to have with our agents, but I think you'll definitely see more of that going forward.

Greg Murphy - *Selective Insurance Group, Inc. - Chairman, CEO*

And this is Greg. I would say also that conversation is directed around best in class. How do you provide a service model that meets the changing customer needs? How do you also focus on the fact that you get the agent directed to -- it is not just about the topline commission revenue; it is about your profit. And your profit margins can actually improve when you do what you do well, which is selling and out and some of the value-added services that make a difference into that customer base that wants to be handled in different ways.

And obviously, the agent is stuck in the middle on this one as they have a number of companies in their portfolio that may be at different levels, and I think this is one of the things that is going to continue to separate Selective as one of the top carriers, pushing their agents, because we only have the Ivy League of independent agents, pushing our agents to think about the market differently and why our agents are going to be really successful long term.

So, it's like John said. It is nothing that changes overnight, but you have got to figure out how you push people into a better service model and get them thinking about who is most efficient to handle those, those more transactional, less value-added kind of services, and where can you provide a 24-hour a day environment for anybody that wants that? And then, ultimately, how can we make this model more profitable in its entirety and how do you make it more successful as 100% of the time service model?

Vincent DeAugustino - *Keefe, Bruyette & Woods - Analyst*

Okay, thanks. That actually makes pretty good sense.

And just sticking with John, when we think about quote submission activity being down, I am curious if we should also think about your underwriters having more time to parse through some of the new business opportunities that are out in the market, and if that should also imply some increase in the pricing accuracy and therefore margins?

And then, secondly, if we should also think about perhaps there being less of a new business penalty being folded in as well?

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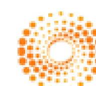

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John Marchioni - *Selective Insurance Group, Inc. - President, COO*

Let me take the second question first. We certainly think as our underwriters continue to better utilize the tools that we have available to them and maintain the kind of discipline with those tools, we do expect our new business penalty over time to come down and we expect to start to see that in our results as we go forward.

On your first question, that's a little bit more difficult to answer because we're in an environment now where you are seeing less business pushed out into the market by renewal actions of other carriers, either price actions or renewal actions. So while submission counts are down, hit ratios are under a little bit of pressure as well, which would indicate that our new business underwriters are spending a lot of time working through accounts that they are not ultimately acquiring.

So I don't know that I would characterize it as less submissions means more time on the higher-quality counts, but the other part of it is we have to look at quote activity. So for us, we think about submissions and then quotes to submissions, how many of those submissions are you actually working up a quote on, and then policies acquired relative to submissions and relative to quotes.

Our productivity is actually slightly up, especially on the middle-market side, which is where our AMSes, our field underwriters, are spending the bulk of their time. So, they are working through those accounts diligently. I think that has always been the case, but I would also say we always look for ways to make sure that they are spending their time where they are adding the most value, which is exactly what you're talking about -- the underwriting and the pricing, granular pricing, account by account, and moving less value-added transactions to our AMS assistants, to our small business teams in particular.

Vincent DeAugustino - *Keefe, Bruyette & Woods - Analyst*

Okay, good. Then you guys have done a particularly good job at calling out the non-CAT weather impact and we certainly appreciate that. So on the line level when we look at personal auto, I guess I would have expected with some of this higher frequency on hail damage that we had seen just reported broadly in the quarter that the combined ratio there would have been higher. And certainly not complaining by any means, but the result here, I guess, might suggest that if we look past the comprehensive line that there might actually be some stronger underlying margin improvement. So I just wanted to check in on that.

Greg Murphy - *Selective Insurance Group, Inc. - Chairman, CEO*

Yes, relative to the hail damage, we don't -- our business -- we don't write a tremendous amount of auto and hail has a tendency to be more focused, so we did see some catastrophic losses in auto, but very -- overall, not that much.

I think we still continue -- it's like the story we told you before. Auto is a line that we continue to lay down, continue to get rates, slightly higher than trend, continue to change our mix of business relative to how we analyze it, but also we had a small amount of favorable development in that line as well.

So, it was the aggregation of all those. I don't think I would sit there and expect auto to continue to run at this low level, but we are seeing some core fundamental improvement in that line, and the line that I would say that we continue to hit hard is the home line, and that's where we do see pronounced weather changes and where we need to see a change in pricing and, longer term, probably other more meaningful deductibles on policies.

Vincent DeAugustino - *Keefe, Bruyette & Woods - Analyst*

Okay, and then just one last one for me, and again, it's almost a similar question. But we have heard from a number of your peers there was some elevated fire severity, with a mix between both commercial and personal. I'm just curious if you guys happened to experience any of that.

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John Marchioni - *Selective Insurance Group, Inc. - President, COO*

We definitely did see that. The non-CAT property losses include some weather, as well as some higher-than-normal fire losses, and I would -- some of the fire actually was weather related also, in terms of lightning strikes. So, we definitely saw that. It is unusual and we are hoping, obviously, it is an aberration.

Greg Murphy - *Selective Insurance Group, Inc. - Chairman, CEO*

But it's interesting. It is a fairly common theme through the calls that we've listened to, which is an interesting situation. You obviously saw the first quarter and much of that was attributed to delayed [outstanding] claims reported. There were so many things that had happened that were outside the PCS days that created a lot of elevated activity, and then we saw some of that continue into the second quarter, but yet it seems like a fairly common thematic throughout the industry relative to large fires in both personal lines and commercial lines and other events that affected both the commercial property and the home line.

Vincent DeAugustino - *Keefe, Bruyette & Woods - Analyst*

Okay, thanks for all the color, guys, and congrats on the good core results there, too. Thanks.

Operator

Alison Jacobowitz, Bank of America.

Alison Jacobowitz - *BofA Merrill Lynch - Analyst*

Actually, I just have a couple of questions. I am curious, you talked about the weighted average cost of capital. I think you said it was 8.9%. Can you break out what the equity cost of capital is?

And then, my other question is for the non-CAT weather, you gave the comparison points year over year. Could you compare this quarter's non-CAT weather to a normalized quarter?

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

The cost of equity capital, which we just pull right off of Bloomberg, is 10.37%. Again, one of the reasons we use Bloomberg is you avoid having a debate as to how to calculate it, so you can drag it right from there.

As far as a normal quarter for us, if you look over the last three years for non-CAT property, the numbers ran right around the $60 million number for a normal quarter. So you can use that, although, obviously, the premium base moves around a little bit, too.

Alison Jacobowitz - *BofA Merrill Lynch - Analyst*

Thank you.

Operator

(Operator Instructions). Mark Dwelle, RBC Capital Markets.

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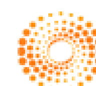

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Mark Dwelle - *RBC Capital Markets - Analyst*

A couple questions. On the E&S segment, you reported pretty good growth there. Any particular products that you're gaining traction in there?

John Marchioni - *Selective Insurance Group, Inc. - President, COO*

Mark, this is John. I wouldn't say it is necessarily product specific. I think our appetite there has been fairly stable over the last year or so.

I just think, as we talked about last quarter, we had gone through a lot of integration and a lot of changes in terms of the servicing structure for the wholesale agents, and that disruption, I think, set us back a little bit earlier in the year, and now that we are through that, I think you're just starting to see our growth get back to a more normalized run rate in terms of what we expected.

We still think, as we've said in the prepared comments, there is a lot of opportunity left. We are getting good growth outside of our Selective core footprint. We also think there is still a lot of untapped potential within our footprint by partnering up our retail agency partners with our wholesale partners, and we're going to continue to really push on that.

But I would say it is not necessarily product specific. It is more execution on our part across the board that I think we had some distractions earlier in the year.

Mark Dwelle - *RBC Capital Markets - Analyst*

Okay, that's actually pretty good news.

The second question, and give me some leeway as I talk this through. As I look at your statutory ex-CAT combined ratio of 91.6 and look at it over the last few quarters, what I see is that the accident-year component is actually rising and the reserve development portion is also rising. Now neither -- the latter isn't a bad thing, but I guess I would have thought that with the amount of rate that you continue to take and the long-term run rate you had on doing so, that we would be by this stage perhaps seeing both further improvement in the accident-year margin, as well as the incremental favorable development. Can you comment on that?

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

Sure, Mark. This is Dale Thatcher. So the big thing really is that we have seen some elevated non-CAT property losses in the last couple of quarters. We don't view that as any kind of a deterioration in the book, just part of the ongoing cycle that you see that occasionally you have fortuitous losses that will end up driving up a combined ratio for a short-term timeframe.

So if you -- as we look at that and go through that process, we are still encouraged by the underlying combined ratio and the progress that we continue to make.

Greg Murphy - *Selective Insurance Group, Inc. - Chairman, CEO*

So if I could, so we look at that -- we almost think about it this way, to put it in terms of combined ratio points, the excess property non-CAT added 4 points to the combined ratio, which was principally offset by the favorable development. So when you start to look at those [alone], they are different in nature. They are both unusual relative to performance. You are seeing that core underlying improvement in the liability lines, and that's the important part.

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So when you look at GL, you look at commercial auto, you look at comp, you look at all those lines relative to our expectation, those lines which are most of the business are definitely on track. What threw us off was the non-CAT property, mainly in home and mainly in CP and commercial property.

So, you are on -- your question is very specific and very well directed, but I want to make sure you understand. It is exactly the improvement we expected, but just like Dale said, it is the volatility on the prop side that took us off our mark and we don't view that as an ongoing trend.

Mark Dwelle - *RBC Capital Markets - Analyst*

So when I think about non-CAT property, which is in itself kind of an odd discussion, but if we had 15.7 points this quarter and that was 4 points higher than a year ago, would you consider last year's run rate of, call it, 12-ish points to be a normal level or was last year's level likewise elevated from whatever you might regard as the longer-term baseline?

John Marchioni - *Selective Insurance Group, Inc. - President, COO*

I would say that depending on the timeframe that you look at because, obviously, there is always some level of volatility in property, but a more normal kind of baseline is somewhere between that 11 to 13 points would be what you'd expect to see. So, this is somewhere between two and four points higher than what you would otherwise see.

Mark Dwelle - *RBC Capital Markets - Analyst*

That's very helpful. Thank you. That's all my questions.

Operator

Mike Zaremski, Balyasny.

Mike Zaremski - *Balyasny Asset Management L.P. - Analyst*

Thanks for taking my questions. First question, are you able to give us an update on pricing in July?

Greg Murphy - *Selective Insurance Group, Inc. - Chairman, CEO*

No. Other than the fact that we have given your pricing expectation for the year, which was 6%.

Mike Zaremski - *Balyasny Asset Management L.P. - Analyst*

Okay. If I did my math correctly, it looks like the fixed-income yield on the portfolio was up a decent amount. Were there any one-time items there?

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

We did have a one-time recovery on an old bond that pushed the yield up a little bit for the quarter, but, again, going back to the same kind of reference that Greg made, our guidance remains unchanged for the year that we will achieve our $100 million after-tax investment income number.

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Mike Zaremski - *Balyasny Asset Management L.P. - Analyst*

Got it. And lastly, are you able to comment on how much of the retention decline you think was due to the strategic non-renewals you have talked about?

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

In the personal lines arena or commercial lines?

Mike Zaremski - *Balyasny Asset Management L.P. - Analyst*

Or both.

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

I would say in the personal lines arena, the vast majority of what we saw in retention declines was driven by targeted actions on our part. In the commercial lines arena, we only saw a slight movement relative to retention levels, and honestly, that's just the constant balancing between our pricing strategy and where the market is. So there is -- we don't see anything in the retentions on the commercial lines side at this point that concern us, but on the personal lines side, it is largely driven by our actions.

Mike Zaremski - *Balyasny Asset Management L.P. - Analyst*

Thank you.

Greg Murphy - *Selective Insurance Group, Inc. - Chairman, CEO*

One thing I'll point out on the retention, just to be a little clearer, because we gave you some rounded numbers before. So the retention in 2013, we indicated it was 83%. It calculates at 82.6%, and if you look at the retention in 2014 in the second quarter, it is 81.9%. So it's even closer than the rounded numbers would appear.

Mike Zaremski - *Balyasny Asset Management L.P. - Analyst*

Got it, thank you.

Operator

(Operator Instructions). At this time, there are no questions in the queue.

Greg Murphy - *Selective Insurance Group, Inc. - Chairman, CEO*

Okay, thank you very much for your participation on our call this morning. If you have any follow-up items, please contact Jennifer or Dale. Thank you very much.

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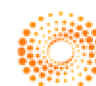

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Operator

Thank you for your participation in today's conference. Your call has ended and you may now disconnect. Once again, your conference has ended and you may now disconnect. Thank you again for your participation.

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