Selective Insurance Group, Inc.	SIGI	Q3 2011 Earnings Call	Oct. 27, 2011
Company▲	*Ticker▲*	*Event Type▲*	*Date▲*

PARTICIPANTS

Corporate Participants

Jennifer W. DiBerardino – Treasurer & SVP-Investor Relations
Dale Allen Thatcher – Chief Financial Officer & Executive Vice President
John J. Marchioni – Executive Vice President-Insurance Operations
Gregory Edward Murphy – Chairman, President & Chief Executive Officer

Other Participants

Michael F. Grasher – Analyst, Piper Jaffray, Inc.
Doug R. Mewhirter – Analyst, RBC Capital Markets Equity Research
Robert Farnam – Analyst, Keefe, Bruyette & Woods, Inc.
Alison Jacobowitz – Analyst, Bank of America Merrill Lynch

MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone. Welcome to the Selective Insurance Group's Third 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, Ms. Jennifer DiBerardino. Ma'am, you may begin.

Jennifer W. DiBerardino, Treasurer & SVP-Investor Relations

Thank you. Good morning. Welcome to Selective Insurance Group's third quarter 2011 conference call. This call is being simulcast on our website and a replay will be available through November 28, 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, 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 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; Dale Thatcher, CFO; John Marchioni, EVP, Insurance Operations; and Ron Zaleski, Chief Actuary.

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

Dale Allen Thatcher, Chief Financial Officer & Executive Vice President

Thanks, Jen. Good morning. 2011 has proven to be a year of significant catastrophe losses for the P&C industry and Selective's saw it share with the third quarter catastrophe losses of $67 million. In spite of that, we witnessed a continuation of the positive underlying trends we saw in the second quarter. We achieved our 10th consecutive quarter of positive Commercial Lines price at 2.7% and Commercial Lines premium grew 10% in the quarter.

Commercial Lines direct new business increased 15%, and audit and endorsement premiums continued to benefit the top line. While the majority of our catastrophe losses in the quarter were from Hurricane Irene, Tropical Storm Lee, six other weather events and $10.4 million in development primarily from the tornado activity in the second quarter accounted for the rest. Hurricane Irene now represents the largest storm loss in our history with gross losses including IBNR, estimated at $48 million or $40 million on a net basis. In addition, we incurred $740,000 in reinstatement premium on the first layer of our catastrophe treaty.

For the quarter, we reported an operating loss per diluted share of $0.34, compared to operating income of $0.35 a year ago. While catastrophe losses reduced earnings by $0.81 a share, higher net investment income from alternative investments and favorable prior year casualty development partially offset these losses. Since the quarter was in a loss position, basic shares are required to be used for the calculation of earnings per share as the effective common stock equivalent would have yielded a smaller per share loss.

The third quarter statutory combined ratio was 116.4%, an increase of 16.1 points from a year ago. Catastrophe losses accounted for 18.8 points, partially offset by favorable prior-year casualty reserve development of $10 million or 2.8 points. Excluding the impact of catastrophes and reserve development, the combined ratio for the quarter was 100.4%.

Total statutory net premiums written were up 9% in the quarter, driven by Commercial Lines net premium written growth of 10%, our second sequential quarter of growth. Our recent expansion into the excess and surplus lines contributed $8.4 million in net premium written in the quarter. Much of the remaining premium increase in Commercial Lines was driven by continued improvement in audit and endorsement premium to a positive $4.4 million in the quarter, compared to almost $11 million in return premium in the third quarter of 2010. The Commercial Lines statutory combined ratio was 110.7% in the third quarter including 13.5 points of catastrophe losses.

Commercial property excluding catastrophe losses continued to perform well with an 81.2% combined ratio. Commercial auto and general liability each had a good quarter reporting statutory combined ratios of 95.9%, including favorable prior-year casualty development of 2.9 and 6.3 points, respectively.

Workers' compensation results showed some improvement in the quarter, reporting a statutory combined ratio of 114.2% versus 130.2% a year ago. Results benefited from positive audit and endorsement premium of $1.6 million. There was no prior-year development in the quarter as we're seeing some stabilization in the line. While we can't say yet that this is a trend, we monitor our reserve positions very closely through a ground up analysis of reserves every quarter.

In Personal Lines, net premium written grew 4% in the quarter to $73 million, as we saw renewal pure price increases of 5.9%. The Personal Lines statutory combined ratio was 141.4%, driven by 41.9 points of catastrophe losses. Additional non-catastrophe property losses added 9.5 points to the combined ratio compared to the third quarter of 2010. The majority of the non-cat loss was primarily weather-related, but did not fall into the PCS timeframe for named storms.

Turning to investments, third quarter after-tax net investment income increased 7% from a year ago to $27 million. Pre-tax alternative investment income of $4.5 million drove the increase. Recognizing the majority of the alternative investments report on a one quarter lag, we believe that the third quarter equity market declines are not completely predictive of alternative performance in the fourth quarter. Our seasoned portfolio includes investments and segments that are not as susceptible to equity market volatility, such as energy and mezzanine debt.

Reflecting the continued low interest rate environment, the after-tax yield on fixed maturity securities was 2.7% for the quarter, flat with last quarter and down slightly from the year ago period.

Invested assets increased 2% from a year ago to $4.1 billion. Our fixed income portfolio has an overall credit rating of AA minus and duration of 3.2 years including short-term investments. The AA minus rating reflects the recent S&P downgrade of U.S. debt. We continue to invest primarily in high-quality corporate bonds, while maintaining a laddered maturity schedule. Our municipal portfolio continues to be very high quality with an average AA rating. We have no investment in sovereign debt in Greece, Portugal, Spain, Italy or Ireland.

Equity exposure at September 30, 2011 was 3.4% of invested assets, up almost 2% from a year ago as we deployed our high dividend yield equity strategy. While equity market returns were negative in the third quarter, this strategy continues to outperform the broad market.

We had an unrealized gain position of $118 million pre-tax at September 30, 2011, up from $102 million last quarter. The unrecognized gain position in the fixed income held to maturity portfolio, which was $49 million pre-tax or $0.58 per share after-tax.

Surplus remained strong at $1 billion at September 30, while stockholders' equity was flat with the year ago at $1.1 billion. Book value per share increased to $20.04 from $19.95 at December 31, 2010. Our premium-to-surplus ratio increased slightly to 1.4 times in the quarter. We believe we have adequate capital to fully participate in an improving industry marketplace. The dividend yield is currently 3.3%, while the stock trades at 79% of book value.

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

John J. Marchioni, Executive Vice President-Insurance Operations

Thanks, Dale. Good morning. The Commercial Lines marketplace exhibited increased discipline in the third quarter allowing for broader achievement of positive price. We are proud of our 10th conservative quarter of positive Commercial Lines price, which was up 2.7% as we remained focused on improving our underlying profitability through the deployment of our granular pricing tools.

We believe our granular – our pricing granularity is competitive advantage. We will continue to test market conditions as we push for higher rates on more of our policy inventory. For the third quarter, accounts less than $20,000 in premium had a point of renewal retention of 88.7% and a pure price increase of 3%. Accounts greater than $20,000 in premium had a point of renewable retention of 83.8% and a pure price increase of 2.4%.

In addition, overall commercial year-on-year retention improved two points to 82% this quarter, as our underwriters and agents continued to balance our pricing strategy with retention of our best accounts.

Commercial Lines new business in the quarter was up 15% compared to the third quarter of 2010, driven by our Middle Market & Large Account business, which grew by 29% from a year ago. The combination of a more rational marketplace and new product deployment generated this growth. New business has been strong in our Community and Public Services segment, as we've seen very good demand for our new paratransit and schools product. In addition, our new E&S operations generated $8.4 million of written premium in the quarter.

Year-to-date, however, Commercial Lines new business was down 5% compared to 2010 as follows: One & Done automated new business was down 18% to $48 million, and Middle Market & Large Account new business up 2% to $112 million.

Workers' compensation results continued to be under pressure industry-wide and AM Best is forecasting an industry combined ratio of 121.5 for 2011. Several states have recently approved increased rates in this line. While workers' compensation results are still unsatisfactory, we saw some improvement in our results in the third quarter. To facilitate better results, we've been deploying numerous workers' compensation claims and underwriting initiatives. While pricing still needs to move higher, we achieved one point greater pure rate increase on this line than our overall book.

In claims, we're well on our way of achieving the overall goal of three points in lost cost savings over three years. In fact, we have already achieved our full-year target of $8 million in savings in the first nine months. We believe that the stabilization this quarter and workers' compensation results is a direct result of initiatives such as specialized handling of complex workers' compensation claims and proactive medical management.

Personal Lines net premiums written grew 4% in the quarter, while new business was down 22%. We are achieving positive rates and at the same time refining our underwriting approach to improve all our profitability. We've implemented 30 rate increases this year and are on track for the implementation of another 16 rate increases by year-end. In total, these rate increases could generate an additional $18 million on in-force book.

In the quarter, our renewal pure rate increases were 6.1% for personal auto and 5.9% for homeowners. Our Personal Lines book continues to show strong retention at 87%, up 2 points from the third quarter of 2010.

As you'd expect, the third quarter catastrophes also resulted in significant flooding activity throughout the Northeast and Mid-Atlantic States. The fee income we generated from handling flood claims in the Write Your Own program increased sixfold compared to last year's third quarter to $4.9 million. The impact of flood is included in our Personal Lines underwriting results.

We remain focused on our strategy to introduce new and expanded products to our agents and customers. The renewal rights transaction with Alterra, which closed August 1, contributed $8.4 million in written premium in the third quarter. The acquisition announced in September for the E&S subsidiary MUSIC from Montpelier Re provides us the platform needed to fully execute our E&S strategy.

MUSIC brings a 50-state license to E&S Company, with the systems required to underwrite and sell claims in order to begin writing the contract binding authority business on our own paper. MUSIC also gives as a Western presence as we intend to retain the full complement of underwriters and claim specialists in Scottsdale, Arizona to manage and grow the book.

Both books of E&S business are comprised of approximately 75% casualty lines, mainly general liability with no workers' comp and 25% property. The 55 MUSIC wholesale agents have virtually no overlap with the 40 wholesalers that did business with Alterra prior to the renewal rights transaction. The $125 million in renewal premium opportunity from these acquisitions provides us with a good baseline.

When we consider the potential growth – the potential for growth in the $300 million to $400 billion of contract binding authority E&S coverage are 990 independent agency partners currently placed elsewhere, we think we have a solid platform to expand our franchise value model to our new wholesale agency partners.

I'm pleased to welcome, Richard Nenaber, his team in Scottsdale, and our new wholesale general agency partners, who will join the Selective team after regulatory approvals and closing anticipated in the fourth quarter. Along with our Horsham, Pennsylvania operation, they will form our entry into the higher margin excess and surplus market. The combined years of experience in both operations will provide us with superior market knowledge as we expand our product offerings into this new space.

Now I'll turn the call over to Greg.

Gregory Edward Murphy, Chairman, President & Chief Executive Officer

Thank you, John, and good morning. The story in 2011 has clearly been significant industry wide catastrophe losses. PC estimates from its U.S. catastrophe losses for the nine months at $30 billion with $6 billion from Hurricane Irene. Through the adversity, we've had the opportunity to demonstrate our service proposition responses everything.

Our dedicated claims and flood operations have been working around the clock healthy individuals and businesses in need recover from the devastating tornadoes, hurricanes and flooding across our footprint. This has been the worst catastrophe loss in Selective's 85-year history, but it's remained in all these events. Our strong capital position should allow us to take full advantage of a turn in the cycle. If there was any doubt that the Commercial Lines industry was in need of pricing discipline, the catastrophe losses should make it even more obvious.

The Commercial Lines marketplace continues to firm as indicated by the [ph] Telling House CLIPS (16:08) second quarter survey in which pricing increased 1.4% in the third quarter, our renewal pricing moved higher again including at 3.2% increase for the month of September as our retention levels also edged upward. We had new experience working with our agents to raise price in a very granular way and we've been doing it for the past two and a half years. Our multi-year price increase for both Commercial Lines and Personal Lines means we're earning rate increases in excess of our expected loss trends.

However, given today's lower interest rate environment coupled with higher expectations for countrywide catastrophe losses, such as wind, hail, tornadoes, and the coastal hurricane threat, we believe pricing must move higher across the board.

For Personal Lines we continue to achieve rate increases across our footprints. The planned rate increases for 2011 are expected to generate an additional $18 million in annual premium. To improve the long-term profitability of our homeowners' book, our focus will be on additional rate increases as well as the potential of higher deductibles that will promote better consumer cost sharing.

We have successfully grown the top line in a disciplined manner over the past two quarters. And we're encouraged about our future growth opportunities, due to the following: most importantly, our granular pricing capability, which helped us deliver the 10th consecutive quarter of renewal price increases; better than expected retention levels; the stabilizing economy has resulted in positive audit premium for the past two quarters; the new business success, due to new product offerings and the improving hit ratios for Middle Market & Large Accounts; and our excess and surplus line, small business contracting binding authority acquisitions.

We believe our superior agency relationships, sophisticated underwriting tools and pricing strategies allow us to outperform our peers and the industry over the long-term, while delivering strong shareholder returns. Given the elevated catastrophe losses we're experiencing to date, we are revising our overall 2011 guidance to achieve a statutory and GAAP combined ratio of approximately 108%. Our guidance includes a two point catastrophe loss assumption for the fourth quarter, but does not include any expectations for additional favorable or unfavorable reserve development. Weighted average shares at year-end are expected to be 55 million.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Mike Grasher. Your line is open, sir.

<Q – Michael Grasher – Piper Jaffray, Inc.>: Thank you. Good morning, everyone.

<A – Gregory Murphy – Selective Insurance Group, Inc.>: Good morning, Mike.

<A – Dale Thatcher – Selective Insurance Group, Inc.>: Good morning, Mike.

<Q – Michael Grasher – Piper Jaffray, Inc.>: Hey, first question just around the – your reinsurance program, can you remind us the renewal period?

<A – Dale Thatcher – Selective Insurance Group, Inc.>: It's January 1 renewal for our cat program. And it's July 1 for our property and our casualty progress program.

<Q – Michael Grasher – Piper Jaffray, Inc.>: Okay. And I guess about the cat program at this point you've just experienced the largest event in the company's history with Irene, is it – I mean is it pretty much in line with expectations and would you look to tweak it in any way?

<A – Gregory Murphy – Selective Insurance Group, Inc.>: I don't really think at the current time that there is any particular tweaks that we have in mind, but although obviously we're always evaluating the marketplace and how the reinsurers react with regards to pricing and structure. But we don't have any current plans underway. We have a $40 million retention on our program. Irene was – had gross losses estimated at $48 million. So, so far so good, everything has performed as we would have expected for our cat program.

<Q – Michael Grasher – Piper Jaffray, Inc.>: And then just capital levels where they are, expect to be no issues around that in terms of changing any other programs?

<A – John Marchioni – Selective Insurance Group, Inc.>: Right, I would agree. I mean basically as Greg pointed out in his prepared comment, I mean in spite of the unbelievable catastrophe losses that we've had this year, it's still an earnings event, we're in positive earnings through nine months. So it wasn't any kind of a capital depletion event it all.

<Q – Michael Grasher – Piper Jaffray, Inc.>: Okay.

<A – John Marchioni – Selective Insurance Group, Inc.>: So we feel pretty good about everything.

<Q – Michael Grasher – Piper Jaffray, Inc.>: Okay. And then I think Greg you were saying something about – I just wanted to clarify the point, $18 million expected increase in premiums for 2012, was that Commercial or a Personal Lines or a combination?

<A – Gregory Murphy – Selective Insurance Group, Inc.>: First, Mike that was the Personal Lines expectation as a result of rate increases already taken and their annual impact on premium.

<Q – Michael Grasher – Piper Jaffray, Inc.>: Right.

<A – Gregory Murphy – Selective Insurance Group, Inc.>: That number was – and then obviously we've made no prognostications yet in terms of what our overall rate level for 2012 will be, but obviously given the market conditions in home, I think there is two areas that we're going to push on. One is going to be rate and the other are going to be deductibles to promote as I indicated before a better cost sharing between the consumer and ourselves.

<Q – Michael Grasher – Piper Jaffray, Inc.>: Okay. That specifically was related to the Personal Lines?

<A – Gregory Murphy – Selective Insurance Group, Inc.>: That was specifically related to the Personal Lines, yes.

<A – Dale Thatcher – Selective Insurance Group, Inc.>: And Mike, that was specifically related to the impact of already taken price increases, so it's not any kind of a growth prediction on the overall Personal Lines.

<Q – Michael Grasher – Piper Jaffray, Inc.>: Understood, understood.

<A – Dale Thatcher – Selective Insurance Group, Inc.>: Just wanted to make sure that was clear.

<Q – Michael Grasher – Piper Jaffray, Inc.>: Thant's clear. And then finally just in terms of getting more rates on the Commercial side, may be the pressure in workers' comp, does it seem like you are just sort of getting started there that there is a lot more opportunity to come forward. I understand results right now are not the best, but what does it say about the future pricing if the line itself?

<A – John Marchioni – Selective Insurance Group, Inc.>: Mike, this is John, I'll take that question.

<Q – Michael Grasher – Piper Jaffray, Inc.>: Thanks, John.

<A – John Marchioni – Selective Insurance Group, Inc.>: In the quarter, workers' comp actually, as we said in the prepared comments exceeded our overall price number by about a full point, came in at about 3.6%. Now part of that is our ability to work on individual schedule mods that we have on business, the other party relying on is for the various rates – state rate bureaus to take rate increases, which we've actually started to see over the last 12 to 18 months.

So our expectation is with the industry results where there are, you will continue to see a hardwire rate increases come through at the state by state level and that will also continue to manage our individual schedule mod usage in order to achieve a higher overall rate number.

But clearly, in addition to the medical cost management work we've done on the claim side and some other underwriting initiatives with regard to specific segments that line needs more rate that is currently getting industry wide and we'll continue to push that ahead of our overall price target.

<A – Gregory Murphy – Selective Insurance Group, Inc.>: And Mike, I would add to that. When you really start to think about it, as the competitive landscape continues to change, a lot of our competitors have been using comp as the entry point into an account. We're an account underwriter, so let's be clear when I'm writing model line comp, but it is one like John indicated that's onto the most CPI inflationary need and I think as the market starts to move, that is the line that probably needs the heaviest rate level in terms. But I think we feel pretty good about the fact that we will continue to make movement and that will be where a lot of the movement is focused in as well as some of the property indications relative to the higher storm activity.

<Q – Michael Grasher – Piper Jaffray, Inc.>: Okay. I appreciate that. Thanks very much.

Operator: Our next question comes from Doug Mewhirter. Your line is open.

<Q – Doug Mewhirter – RBC Capital Markets Equity Research>: Hi. Good morning.

<A – Gregory Murphy – Selective Insurance Group, Inc.>: Good morning, Doug.

<Q – Doug Mewhirter – RBC Capital Markets Equity Research>: Two questions. First of all, it is about auto premiums, I noticed that the auto premiums were roughly flat with same quarter last year, is that definitely an effect of your rate increases maybe biting a little bit into new business, you might be a little I guess less competitive or you might be actually getting less to the people and maybe you don't want, I just want – because auto and homeowners have been checking pretty well its growth and auto seem to be tailing off from last quarter?

<A – John Marchioni – Selective Insurance Group, Inc.>: I'm sorry Mike. I'm sorry Doug. Did you say audit or auto?

<Q – Doug Mewhirter – RBC Capital Markets Equity Research>: Auto, yeah, auto insurance, car insurance.

<A – John Marchioni – Selective Insurance Group, Inc.>: This is John again. I will address that. Auto has been an area that we've taken, I would say we've been ahead of the market in the rate that we've taken across our footprint and you saw what the number was for the quarter. The other thing we've done is taken some three significant underwriting actions, which is put pressure on our new business. So the drop off you're seeing in auto is driven for the most part by new business. Retentions are still very good, rate is still very positive, but those are designed activities to change, which didn't improve our mix of business.

From an account standpoint, we continue to see more and more improvement in terms of cross selling. So the amount of business we write that's a combination auto and home continues to increase, which is also a positive indication in terms of improving mix of business. But the drop off in auto is our rate stance, which has been slightly ahead of the market and some underwriting actions that we've taken to improve our mix of business.

<Q – Doug Mewhirter – RBC Capital Markets Equity Research>: Okay. Thanks. That's a helpful answer. My second question, I guess two-part question about your E&S, your growing E&S business. First, with the Alterra business, the renewal rates, what's the ramp on that, I saw you did $8.5 million roughly this quarter. Is that pretty much pro rata of what we could look at for the following quarters, or is there going to be more of an acceleration as you get more comfortable with the book and the underwriters?

<A – Gregory Murphy – Selective Insurance Group, Inc.>: The book Doug was a $77 million book that we purchased and obviously we're exercising our renewal rates and our underwriting capabilities on that. So our expectation is that actually see that, probably be a little bit less than that over the course of the year, but that positions us well we think for growth on a go forward basis.

<Q – Doug Mewhirter – RBC Capital Markets Equity Research>: And a quick follow-up on that, was that – those policies I guess run straight through you or is there any kind of fronting arrangements, or you're still transitioning?

<A – Gregory Murphy – Selective Insurance Group, Inc.>: Because we don't have a legal entity that's licensed for E&S, that's a fronting arrangement on the Alterra book until we're able to close on the MUSIC acquisition. And then obviously with the transition, we'll be able to start using their paper than ultimately to renew the Alterra business on to our own legal entity at that point in time.

<Q – Doug Mewhirter – RBC Capital Markets Equity Research>: Okay.

<A – John Marchioni – Selective Insurance Group, Inc.>: And Doug, just one other point to that. I think when you start to look into the fourth quarter, you'll get a sense of what a normalized kind of quarter run rate will be based on as we work through some of the transitional issues, some of the lag time from one business is written down by a retailer and it actually gets to one of our wholesaling agent and then ultimately to us. So I think the fourth quarter E&S premium will kind of provide a better lens as to the volumetric activity that you are going to see kind of going forward. But that doesn't include really any of the incremental penetration that we're planning for our own agents in terms of other things that we're looking at to try to move that business into that plant as well.

<A – Gregory Murphy – Selective Insurance Group, Inc.>: The other thing I'll point out, Doug, is that that also will not include any business from MUSIC. Remember the MUSIC acquisition also comes with its own book of business of about $48 million. So we won't have any of that premium until after closing, which we expect to occur sometime in the fourth quarter, possibly as later as 01/01/2012.

<Q – Doug Mewhirter – RBC Capital Markets Equity Research>: Okay. And you actually answered most of my follow-up about MUSIC, what the volume was, and just to remind, was the MUSIC, did you buy the balance sheet whereas again just the renewal rights and the licenses?

<A – Gregory Murphy – Selective Insurance Group, Inc.>: We bought the legal entity and all of the insurance liabilities were reinsured by Montpelier. So we didn't take any of the insurance liability portion of the balance sheet, you know, your normal account payables and things like that we took.

<Q – Doug Mewhirter – RBC Capital Markets Equity Research>: Okay, great. Thanks. That's all my questions.

<A – Gregory Murphy – Selective Insurance Group, Inc.>: Thanks, Doug.

Operator: Our next question comes from Bob Farnam. Your line is open.

<Q – Robert Farnam – Keefe, Bruyette & Woods, Inc.>: Yeah, hi there.

<A – Gregory Murphy – Selective Insurance Group, Inc.>: Good morning, Bob.

<Q – Robert Farnam – Keefe, Bruyette & Woods, Inc.>: A couple more questions on the E&S topic. So it sounds like you can be renewing a pretty good portion of, how are you seeing the market conditions right now? Is that relative to the kind of the standard business right now?

<A – John Marchioni – Selective Insurance Group, Inc.>: So – and this is John. We would fully expect although the market is just now starting to firm on the admitted or standard market side, we would fully expect as that continues to firm and standard market companies start to take underwriting action on the renewal book in addition to pricing action, you will start to see business flowing out of the admitted market into the non-admitted market. And as a result of that, that will also help rate and price firming on the E&S side as well. So there is going to be a little bit of lag in that regard, but as the standard market starts to firm, we would fully expect over the next 12 to 18 months you're going to see increased opportunity on the E&S side as result of that.

<Q – Robert Farnam – Keefe, Bruyette & Woods, Inc.>: Right. And that's going to be – kind of growth there could be more significant than it is in the standard book, because you are getting the rates and more business books I guess?

<A – John Marchioni – Selective Insurance Group, Inc.>: The way we look at it.

<Q – Robert Farnam – Keefe, Bruyette & Woods, Inc.>: Okay. And in terms of the systems that you acquired, are they – is the pricing there as granular as your core book? And you speak as a granular pricing capability in the call, but I just wanted to know, you know what, the new systems, are you just going to use them as this or are you planning on switching them over to the core platform?

<A – Gregory Murphy – Selective Insurance Group, Inc.>: We plan on using the system capability that is in place at MUSIC. It is a very different business model from a pricing granularity perspective. That business does tend to be rated on a class basis with very little pricing flexibility from account to account. So unlike in our standard market where you could really differentiate yourself in the market by modifying your base price structure based on individual risk characteristics that business – the rates are established generally higher than ISO rate levels and not really deviated from one account to another within a given class of business.

<Q – Robert Farnam – Keefe, Bruyette & Woods, Inc.>: Right. Okay. Thank you.

Operator: [Operator Instructions] Our next question comes from Jay Cohen. Your line is open.

<A – Gregory Murphy – Selective Insurance Group, Inc.>: Good morning, Jay.

<Q – Alison Jacobowitz – Bank of America Merrill Lynch>: Thanks, its Alison took up.

<A – Gregory Murphy – Selective Insurance Group, Inc.>: I'm sorry, good morning, Alison.

<Q – Alison Jacobowitz – Bank of America Merrill Lynch>: Good morning. Two questions for you. One is, are there any proposed changes in workers' comp regulation in your key states that could help your results? And then the second is, is it possible for you to give any more insight into the alternative income that we might see next quarter given the lag?

<A – John Marchioni – Selective Insurance Group, Inc.>: I'll take the comp, the comp question first. There is really nothing of substance that we see on the near-term horizon in any one of our states that we would expect to materially impact the results. And obviously, in many cases when you see a state law change it requires regulations be propagated which will delay the impact some. But I would say that we're looking more at our internal efforts on the claims underwriting and pricing sites to improve our results and not expecting that improvement to come from state law regulatory changes.

<A – Gregory Murphy – Selective Insurance Group, Inc.>: I'd say, Allison, the only thing that did have, it wasn't in comp, but that was in New Jersey, there is a reform and a lot of the CPT codes and things like that that they are working on. But that is – our concern is these schedules better protection from cost sharing that will happen within the healthcare space. And that like John indicated, we're trying to do everything that we can in our own internal operations, but we are trying to push for more holistic fee schedules better insulating of that to protect ourselves from future cost shifting that may happen into the private payers like ourselves down the road.

<A – Dale Thatcher – Selective Insurance Group, Inc.>: And then on the alternative investments, I guess the only thing I can do is provide a little bit more color on the guidance we already provided in our prepared comments. And that is keep in mind that we did sell about $20 million worth of those alts at last year-end and we believe that has decreased the correlation of our alternative performance with the broad S&P marketplace. So even though S&P is down substantially in the third quarter of this year that one quarter lag, we don't expect to see that same kind of a decrease in value for the alternatives in the fourth quarter. But obviously, all remains to be seen because there's only so much prognostication that we're able to make on those alternative investments.

<Q – Alison Jacobowitz – Bank of America Merrill Lynch>: That's great. Thank you.

Operator: I'm showing no further questions.

Gregory Edward Murphy, Chairman, President & Chief Executive Officer

All right. Well, thank you all very much. If you have any follow-up issues, just contact Jennifer and/or Dale. So thank you very much for your participation today.

Operator: Thank you for your participation. You may disconnect at this time.