FITCH AFFIRMS SELECTIVE INSURANCE'S RATINGS; OUTLOOK REVISED TO NEGATIVE

Fitch Ratings-Chicago-04 June 2013: Fitch Ratings has affirmed Selective Insurance Group, Inc.'s (Selective) ratings as follows:

--Issuer Default Rating (IDR) at 'A-';
--Senior debt at 'BBB+'.

Fitch has also affirmed the 'A+' Insurer Financial Strength (IFS) ratings of the members of the Selective intercompany pool. The Rating Outlook has been revised to Negative from Stable. A full rating list is shown below.

Key Rating Drivers

The Negative Outlook reflects Selective's increased levels of statutory and financial leverage along with a modest deterioration in NAIC risk-based capital (RBC) levels. The rating is also reflective of diminished operating earnings-based interest coverage relative to historical performance.

The affirmation of Selective's ratings reflect the company's improved underwriting results, strong independent agency relationships, solid loss reserve position, and enhanced diversification through continued efforts to reduce its concentration in New Jersey.

Selective's combined ratio (GAAP) improved to 97.1% in the first quarter of 2013 versus 104.0% for full-year 2012, as the company achieved continued positive growth in pricing and had favorable loss experience. The first quarter 2013 results mark the first period since Selective added its Excess and Surplus (E&S) lines business that all three reporting segments, including standard commercial and personal lines, achieved an underwriting profit. Fitch's expectations are that Selective will continue to perform at a break-even or better level over the long term.

Fitch notes that the company's accident-year combined ratio, excluding the impact of catastrophe losses, improved in 2012 by 2.0 points over the prior year period, reflecting a modest improvement in run-rate underwriting results. Selective's calendar year underwriting results also include a lesser impact from favorable loss reserve development than experienced by its regional peers.

Fitch views the company's historical profitability as better than its peers but results have declined in recent years relative to historical performance due to cyclical underwriting pressure, weaker investment performance and above-average catastrophe losses.

Fitch believes that Selective's capitalization is good as of March 31, 2013, but has recently experienced moderate amounts of deterioration. At March 31, 2013, annualized GAAP operating leverage (net premiums written to shareholders' equity) was 1.58x, versus 1.54x at year-end 2012, with the increase driven primarily by the additional excess and surplus lines premium as well as from price improvement experienced in the commercial and personal segments. On a statutory basis, the company has reported increased net leverage (net premiums written and liabilities to policyholders' surplus) to 5.19x at year-end 2012, from 4.98x at the prior year-end.

Fitch also believes that Selective employs a moderate amount of financial leverage, with adequate financial flexibility. The company's unadjusted debt-to-total capital ratio is roughly 25.7% at March 31, 2013. The company has limited near-term liquidity needs, with its nearest maturities totaling $58 million in borrowings from the Federal Home Loan Bank of Indiana due in 2014 ($13 million) and 2016 ($45 million).

Selective's stockholders' equity increased modestly through full-year 2012 and grew by 4.2% in the first quarter of 2013 to just over $1.1 billion. Group statutory surplus declined modestly in 2012 to just over $1 billion. NAIC RBC for the lead operating company fell to 197% of the company action level at year-end 2012, from 221% at the prior year end.

Historically, the company's strong regional presence and small- and middle-market commercial lines focus has allowed for premium rate increases above industry experience. Selective conducts a sizable portion of its business in the state of New Jersey; however, the company has expanded into the Midwest to diversify its insurance exposure out of New Jersey and the Northeast U.S. In 2012, the top five states accounted for 54% of total net written premium, with New Jersey at 23%.

Key rating triggers that could lead to a downgrade include prolonged underwriting weakness, demonstrated by a failure to produce an underwriting profit given normal catastrophe losses, and material deterioration in current balance sheet strengths, including operating leverage as measured by net written premiums-to-equity rising above 1.7x, net leverage remaining above 5.0x, financial leverage remaining above 25%, along with operating earnings based interest coverage that fails to reach 5x-7x or better.

Key rating triggers that could lead to a return to a Stable Outlook include sustained improvement on recent underwriting performance in which Selective maintains an underwriting profit given normal catastrophe losses, net statutory leverage under 5.0x, financial leverage under 25%, statutory RBC approaching 225% of the company action level, and operating earnings based interest coverage reaching 5x-7x or better.

Fitch has affirmed the following ratings, and revised the Outlook to Negative:

Selective Insurance Group, Inc.
--IDR at 'A-';
--$100 million senior notes 6.7% due Nov. 1, 2035 at 'BBB+';
--$50 million senior notes 7.25% due Nov. 15, 2034 at 'BBB+';
--$185 million senior notes 5.875% due Feb. 9, 2043 at 'BBB+'.

Selective Insurance Company of America
Selective Way Insurance Company
Selective Insurance Company of South Carolina
Selective Insurance Company of the Southeast
Selective Insurance Company of New York
Selective Insurance Company of New England
Selective Auto Insurance Company of New Jersey
Mesa Underwriters Specialty Insurance Company
--IFS at 'A+'.

In addition, the following ratings have been assigned with a Negative Outlook:

Selective Casualty Insurance Company
Selective Fire and Casualty Insurance Company
--IFS at 'A+'.

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Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:
--'Insurance Rating Methodology' (January 2013).

Applicable Criteria and Related Research:
Insurance Rating Methodology – Effective Oct. 18, 2012 to Jan. 11, 2013
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=692293