

FITCH AFFIRMS SELECTIVE INSURANCE'S RATINGS; OUTLOOK STABLE

Fitch Ratings-Chicago-02 July 2015: 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 is Stable. A full rating list is shown below.

KEY RATING DRIVERS

The affirmation of Selective's ratings reflects the company's improved underwriting results across its reporting segments, solid capitalization with strong growth in shareholders' equity and continued improvement in leverage and interest coverage metrics.

Selective's underwriting and return ratios remain at the upper end of the median guidelines for the 'A' rating category within Fitch's sector credit factors. Selective's calendar-year combined ratio (GAAP basis) improved in 2014 and in first-quarter 2015 as the company was able to achieve continued positive growth in pricing and had favorable loss experience. Selective achieved an underwriting profit in each of its major reporting segments, Standard Commercial (95.7% combined ratio), Standard Personal (94.4%), and Excess and Surplus (99.7%) in 2014.

Fitch believes that Selective's capitalization is good as Selective's shareholders' equity increased by approximately 3.2% in the first quarter of 2015 to over \$1.3 billion. Group statutory surplus was also at \$1.3 billion at March 31, 2015. Selective's insurance subsidiary capital adequacy as measured by Fitch's Prism capital model remains 'Strong.'

Selective's GAAP operating leverage (net premiums written to shareholders' equity) remains higher than that of peer companies, but has recently experienced a moderate decline. At Dec. 31, 2014, operating leverage was 1.48x, versus 1.57x at year-end 2013. Statutory operating and net leverage remained at 1.44x and 4.67x respectively in 2014, which is considered consistent with Selective's 'A+' IFS rating.

Selective employed a conservative amount of financial leverage at March 31, 2015, with adequate financial flexibility. The company's debt-to-total capital ratio adjusted for the impact of FAS 115 unrealized gains on fixed income investments was roughly 24.1% at March 31, 2015.

RATING SENSITIVITIES

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;
- Material deterioration in capitalization including a failure to remain comfortably within the 'Strong' category on Fitch's Prism capital model;
- Operating leverage as measured by net written premiums-to-equity rising above 1.6x, net leverage rising above 4.8x;
- Adjusted financial leverage above 25%;

--Operating earnings based interest coverage that fails to remain at 5x-7x or better and statutory fixed charge coverage below 4.5x.

Key rating triggers that could lead to an upgrade over the long-term include:

- Sustained improvement on recent underwriting performance in which Selective maintains a consistent low 90's calendar-year combined ratio;
- Statutory net leverage under 3.5x;
- Financial leverage approximating 15%;
- Operating earnings based interest coverage reaching low double digits or better.

FULL LIST OF RATING ACTIONS

Fitch has affirmed the following ratings with a Stable Outlook:

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

Selective Casualty Insurance Company

Selective Fire and Casualty Insurance Company

--IFS at 'A+'.

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Applicable Criteria

Exposure Draft: Insurance Notching Criteria (Proposed Methodology Changes) (pub. 12 May 2015)

https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=865576

Insurance Rating Methodology (pub. 04 Sep 2014)

https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=756650

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