MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Selective's ratings (senior debt at Baa2); outlook changed to stable

Global Credit Research - 13 May 2015

Approximately $394 million of debt outstanding

New York, May 13, 2015 -- Moody's Investors Service has affirmed the Baa2 senior debt rating of The Selective Insurance Group, Inc. (Selective; NASDAQ: SIGI) and the A2 insurance financial strength (IFS) ratings of the group's operating subsidiaries. Moody's has changed the outlook on the ratings to stable from negative.

RATINGS RATIONALE

According to Pano Karambelas, Moody's lead analyst for Selective, "The change to a stable outlook reflects the company's improved profitability as a result of stronger price adequacy in commercial lines, re-underwriting initiatives and claims process improvements. The company continues to evaluate its book of business based on significant use of data-driven tools to non-renew under priced accounts while maintaining price adequacy and healthy retention levels for profitable business."

Selective posted statutory combined ratios of 93.0% in Q1 2015 and 95.7% in 2014 with healthy underlying combined ratios of 91.9% and 95.1%, respectively, excluding catastrophes and favorable casualty reserve development. Although commercial lines rate adequacy continues to slow, we expect Selective's commercial casualty margins -- particularly in its workers' compensation line -- will benefit meaningfully from the company's strategic re-underwriting and claims efforts. The company is also implementing a number of initiatives to improve the performance of its personal lines business, which has faced challenges in maintaining stable profitability.

The ratings of Selective reflect its solid regional franchise with established independent agency support, solid risk adjusted capitalization, strong asset quality, and good underwriting profitability. The company also makes good use of technological tools to service agents, increase efficiency and monitor performance. These strengths are offset by significant gross exposure to catastrophes reflecting the company's Northeastern US geographical focus (40% of premium volume written in NY, NJ, and PA), sizable concentration of its casualty book in independent contractors, limited scale in its personal lines portfolio, and meaningful financial leverage (30.0% at March 31, 2015).

Factors that could lead to an upgrade of the ratings include: 1) strong and consistent earnings through the cycle (return-on-capital above 8%); 2) maintenance of pre-tax interest coverage above 6x; 3) gross underwriting leverage less than 3x; 4) adjusted financial leverage in the low 20% range. Factors that could lead to a downgrade include: 1) weak earnings profile (return-on-capital below 4%); 2) adjusted financial leverage consistently above 30% and/or interest coverage below 4x; 3) gross underwriting leverage consistently above 4.5x; 4) decline in shareholders' equity by more than 10%.

The following ratings have been affirmed with a stable outlook:

Selective Insurance Group, Inc. -- senior unsecured debt at Baa2, senior unsecured shelf at (P)Baa2, senior subordinate shelf at (P)Baa3, junior subordinate shelf at (P)Baa3, junior subordinate debt at Baa3 (hyb), and preferred shelf at (P)Ba1;

Selective Insurance Company of America -- insurance financial strength at A2;

Selective Way Insurance Company -- insurance financial strength at A2;

Selective Insurance Company of South Carolina -- insurance financial strength at A2;

Selective Insurance Company of the Southeast -- insurance financial strength at A2;

Selective Insurance Company of New York -- insurance financial strength at A2;

Selective Insurance Company of New England -- insurance financial strength at A2;

Selective Auto Insurance Co of New Jersey -- insurance financial strength at A2;

MESA Underwriters Specialty Insurance -- insurance financial strength at A2;

Selective Casualty Insurance Company -- insurance financial strength at A2; and

Selective Fire and Casualty Insurance Company -- insurance financial strength at A2.

Selective is a New Jersey based holding company for ten insurance subsidiaries. Commercial lines insurance, consisting primarily of general liability, workers' compensation and commercial auto, comprises approximately 76% of the company's total net written premiums, while personal lines (16%) and excess and surplus (8%) constitute the balance of the business. For the first quarter of 2015, Selective reported net premiums written of $518 million, net income of $40 million, and as of March 31, 2015 shareholders' equity of $1.3 billion.

The principal methodology used in these ratings was Global Property and Casualty Insurers published in August 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Moody's insurance financial strength ratings are opinions of the ability of insurance companies to pay senior policyholder claims and obligations. For more information, visit our website at www.moodys.com/insurance.

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