

FITCH AFFIRMS SELECTIVE INSURANCE'S RATINGS; OUTLOOK STABLE

Fitch Ratings-Chicago-07 December 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 list of ratings follows at the end of this release.

KEY RATING DRIVERS

The affirmation of Selective's ratings reflects the company's strong underwriting results, solid capitalization with growth in shareholders' equity and stable leverage metrics along with improved 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 to 93.2% in the first nine months of 2015 as the company was able to achieve continued positive growth in pricing and had favorable loss experience. Selective achieved an underwriting profit in its largest major reporting segment, Standard Commercial (90.3% combined ratio) while reporting a modest underwriting loss in Standard Personal (102.0%) and Excess and Surplus (104.0%) lines.

Fitch believes that Selective's capitalization is good as Selective's shareholders' equity increased by approximately 6.5% in the nine months of 2015 to nearly \$1.4 billion. Group statutory surplus was also at \$1.4 billion at Sept. 30, 2015. Selective's insurance subsidiary capital adequacy as measured by Fitch's Prism capital model remains 'Very 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 Sept. 30, 2015, operating leverage was 1.5x on a trailing 12-month basis, which is considered consistent with Selective's 'A+' Insurer Financial Strength rating.

Selective employed a conservative amount of financial leverage at Sept. 30, 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 23.2% at Sept. 30, 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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Additional information is available on www.fitchratings.com

Applicable Criteria

Insurance Rating Methodology (pub. 16 Sep 2015)

https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=871172

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