

FITCH AFFIRMS SELECTIVE INSURANCE'S RATINGS; OUTLOOK STABLE

Fitch Ratings-Chicago-24 August 2016: 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 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 92.0% in the first half of 2016 (1H16) and 92.5% for full-year 2015 as the company reported positive growth in pricing and favorable loss experience. Selective achieved an underwriting profit in its standard reporting segments in 1H16, Standard Commercial (91.3% combined ratio), Standard Personal (89.6%), offset by a modest underwriting loss in the Excess and Surplus (101.1%) segment.

Selective's shareholders' equity increased by 11.1% in 1H16 to over \$1.5 billion as a result of \$81 million of net earnings and \$79 million of unrealized investment gains. Group statutory surplus was approximately \$1.5 billion at June 30, 2016. Selective's insurance subsidiary capital adequacy as measured by Fitch's Prism capital model remains 'Very Strong', based on 2014 data. Prism results for 2015 will be available in late summer 2016.

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 June 30, 2016, 12-month trailing GAAP operating leverage was 1.4x, which is consistent with Selective's 'A+' IFS rating.

Selective employed a conservative amount of financial leverage at the end of second-quarter 2016, with adequate financial flexibility. The company's financial leverage ratio is roughly 21.2% at June 30, 2016. Selective increased total short-term borrowings in July 2016 by \$10 million. Pro forma leverage including the new borrowing was 21.7% as of June 30, 2016.

Operating earnings-based interest coverage was 11.3x through 1H16 and 10.8x for full-year 2015 as strong underwriting results drove favorable earnings and coverage metrics. Fitch estimates statutory fixed charge coverage of approximately 8.1x for full-year 2016.

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:

- Enhanced scale and relative competitive position associated with higher rating levels;
- Sustained recent underwriting performance in which Selective maintains a 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

Insurance Rating Methodology (pub. 17 May 2016)
<https://www.fitchratings.com/site/re/881564>

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