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Research Update:

Selective Insurance Group Inc. And Subsidiaries Ratings Raised One Notch; Outlook Stable

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Table Of Contents

Overview

Rating Action

Rationale

Outlook

Related Criteria

Ratings List

Research Update:

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Overview

- Selective has meaningfully improved its operating performance, reduced its property exposure concentrations, and improved its geographic diversification.
- As a result, we raised our ratings on Selective Insurance Group Inc. and its core operating subsidiaries by one notch.
- The outlook is stable.

Rating Action

On Oct. 25, 2016, S&P Global Ratings raised its issuer credit rating and senior unsecured debt ratings on Selective Insurance Group Inc. (SIGI) to 'BBB' from 'BBB-'. At the same time, we raised our issuer credit ratings and financial strength ratings on the company's core operating subsidiaries (collectively referred to as Selective) to 'A' from 'A-'. The outlook is stable.

Rationale

Selective has enhanced its competitive position in recent years, with meaningful improvement in its underwriting results and reduced property catastrophe concentration in the mid-Atlantic. Management's 2011 strategic initiative to improve underwriting performance has proved successful, as consecutive years of improvement in both the combined ratio and return on revenue metrics demonstrate. These results are supported by strategic underwriting actions to address challenged business lines, reduced geographic concentration in catastrophe-prone areas, and strong agency relationships. Selective's capital adequacy remains redundant at the 'AA' level.

For 2016-2017, we expect the company to report a statutory combined ratio (including catastrophe losses) of 94%-96% . We also expect Selective's capital adequacy to remain redundant at the very strong ('AA') level.

Our ratings on Selective reflect our view of the group's strong business risk profile (BRP) and strong financial risk profile (FRP), built on its strong competitive position and very strong capital and earnings. Under our criteria, the strong BRP and strong FRP lead to a possible anchor of either 'a' or 'a-'. We assigned the former due to our improved view of the company's competitive position, which is more reflective of that of 'a' rated peers. The rating on SIGI reflects its structural subordination to its insurance subsidiaries.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that the company will sustain its strong competitive position and that its operating performance will remain in line with that of similarly rated peers. In addition, we expect Selective to maintain capital adequacy redundant at the 'AA' level.

Downside scenario

We could lower our ratings if Selective's earnings weaken to substantially less than our base-case assumptions or capital adequacy deteriorates below the very strong level.

Upside scenario

We are unlikely to raise the ratings again in the next two years given Selective's narrow geographic footprint relative to higher-rated peers. Any upgrade would depend on a sustainable material competitive advantage relative to peers and extremely strong capital adequacy.

Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- Enterprise Risk Management, May 7, 2013
- Insurers: Rating Methodology, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Upgraded

	To	From
Selective Insurance Group Inc. Counterparty Credit Rating Local Currency Senior Unsecured	BBB/Stable/-- BBB	BBB-/Positive/-- BBB-

Selective Insurance Co. of America
Selective Way Insurance Co.
Selective Insurance Co. of the Southeast
Selective Insurance Co. of South Carolina
Selective Insurance Co. of NY
Counterparty Credit Rating

Research Update: Selective Insurance Group Inc. And Subsidiaries Ratings Raised One Notch; Outlook Stable

Local Currency	A/Stable/--	A-/Positive/--
Financial Strength Rating		
Local Currency	A/Stable/--	A-/Positive/--

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