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Selective Insurance Group, Inc. (SIGI)

Q1 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone. Welcome to Selective Insurance Group's First Quarter 2020 Earnings Call. At this time, for opening remarks and introductions, I would like to turn the call over to Senior Vice President, Investor Relations and Treasurer, Rohan Pai.

Rohan Pai

SVP-Investor Relations & Treasurer, Selective Insurance Group, Inc.

Good morning, everyone, and welcome. We're simulcasting this call on our website, selective.com, and the replay will be available until June 8, 2020. Our supplemental investor package which provides GAAP reconciliations of any non-GAAP financial measures referenced today also is available on the Investors page of our website.

Today, we will discuss our results and business operations using GAAP financial measures that also are included in our filings with the annual, quarterly and current report filed with the U.S. Securities and Exchange Commission; non-GAAP operating income, which we use to analyze trends in operations and believe it makes it easier for investors to evaluate our insurance business; non-GAAP operating income is net income excluding the after-tax impact of net realized gains or losses on investments, unrealized gains or losses on equity securities, and debt retirement costs related to our early redemption of debt securities in the first quarter of 2019; and statements and projections about our future performance.

These forward-looking statements under the Private Securities Litigation Reform Act of 1995 are not guarantees of future performance and are subject to risks and uncertainties. For a detailed discussion of these risks and uncertainties, please refer to our annual and quarterly report filed with the U.S. Securities and Exchange Commission which includes supplemental disclosures related to the COVID-19 pandemic. You should be aware that Selective undertakes no obligation to update or revise any forward-looking statement.

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On today's call are the following members of Selective's executive management team: John Marchioni, President and Chief Executive Officer; and Mark Wilcox, Chief Financial Officer. And now, I'll turn the call over to John.

John J. Marchioni

President, Chief Executive Officer & Director, Selective Insurance Group, Inc.

Thank you, Rohan, and good morning. I'll make some introductory remarks and then focus on some high level industry themes and the impact of the current environment on our performance and positioning. Mark will then discuss our financial results and I'll return to highlight how we remain positioned for continued superior performance.

I'll begin with some thoughts on the COVID-19 pandemic, the impact it has had on our business, and our ability to serve our policyholders and distribution partners. These are clearly unprecedented times with the outbreak of COVID-19 impacting lives of countless people across the world, resulting into displacement of the nation's workforce, and significant volatility in the financial markets. We owe a wealth of gratitude to the first responders, medical professionals, and other essential employees who have worked tirelessly so that we can all be safer and get back on the road to recovery.

Selective entered this volatile environment in the strongest financial position in our 94-year history and we remain well-positioned to navigate through these turbulent times. I could not be more proud of how our company and, in particular, our employees responded to this crisis, continuing to serve our policyholders and distribution partners with the exceptional level of service they have come to expect from us.

We've utilized a field-based model for over 25 years, including employees in underwriting, agency management, claims and safety management, enabling us to continue to effectively provide our distribution partners with highly responsive, personalized service and support as they are dealing with disruption to their own operations. Our entire company has been responding proactively to service our policyholders and agents, recognizing the challenges they face.

Steps we have taken to ease the financial burden on our policyholders include helping our customers maintain coverage by offering individualized payment flexibility and suspending policy cancellations, late payment notices, and late or reinstatement fees through at least May 31. In some states, in compliance with regulatory requirements, we provided deferral payments without cancellation for a period of up to 90 days. Also, a program to credit 15% of monthly premiums for April and May related to the personal and commercial automobile classes, which amounts to approximately $20 million. This premium credit will be recorded as other insurance expense in the second quarter and should be offset by reductions in claim frequencies and lower loss cost due to various stay-at-home directives in place.

Finally, we are working with our customers and agents to make mid-term policy adjustments rather than waiting until the end of the policy term to recognize reductions in auditable exposure basis such as payrolls and sales and, in some cases, reclassify those exposures to lower-risk classes.

From a financial standpoint, for the first quarter of 2020, Selective reported non-GAAP, fully diluted operating earnings per share of $0.84 and an annualized operating ROE of 9.4%. Underwriting results and investment income were both strong contributors to this result.

There are three COVID-19-related underwriting items I want to highlight. First, we recorded a $75 million return audit and midterm endorsement premium accrual for policies in-force as of March 31 to reflect the anticipated

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decline in sales and payroll exposures on the workers' compensation and general liability lines of business based on our estimate of reduced exposures due to the significant economic slowdown.

Second, we booked $10 million in property IBNR reflecting the ultimate estimated net losses related to COVID-19 for a small portion of our in-force property policies which have specific, sub-limited coverage for the extra expense associated with the government-ordered cleaning of the insured location due to the outbreak of a communicable disease.

Third, our expense ratio includes a $10.5 million increase in our allowance for uncollectible premiums receivable reflecting the previously mentioned suspension of policy cancellation for nonpayment of premium. The after-tax net impact of these three underwriting-related items was approximately $19 million or $0.32 per share and increased our underlying combined ratio by 3.5 points.

On the investment side, we report alternative investment income on a one-quarter lag, so our second quarter results will include the negative performance from the first quarter. Our current estimate is for an after-tax loss of $10 million to $15 million for alternative investments for 2020. In addition, we recorded $25 million in after-tax net other than temporary impairments in the first quarter of 2020, split evenly between securities we intend to sell and those we impaired for credit losses under the new credit loss accounting standard or CECL.

From a capital and liquidity perspective, we took a number of steps in March out of an abundance of caution to strengthen our balance sheet and liquidity position. This consisted of short-term borrowings of $302 million including a $50 million drawdown on our line of credit and $252 million of borrowings from the Federal Home Loan Bank facilities. We fully expect to repay them in coming quarters or as markets normalize and the regulatory and economic uncertainty declines.

In terms of the broader outlook for our business, there are four main themes I want to touch on. First is the outlook for top line growth as we look out through the remainder of 2020 and into next year. These are undoubtedly challenging times for our economy and small to mid-sized businesses are particularly vulnerable. We continue to work with our policyholders and distribution partners on a case-by-case basis to assess changes to their exposure and business conditions and determine how to best help them through premium returns, waiving non-paid cancellations, and other relief measures.

Reflecting the decline in the overall economy, we expect pressure on premium growth for the next few quarters, manifested in the aforementioned return audit premium adjustment and lower average policy size for new business. We do expect retention rates, however, to remain strong and likely improve.

Second, with respect to pricing, Selective's first quarter commercial lines renewal pure pricing was 4%, continuing an upward trajectory since early last year. For April, which reflects the first full month of economic strain, commercial lines renewal pure price increases averaged 4% and overall premium growth remained strong at 7%. It remains early days in a crisis that is still evolving, and we will continue to closely monitor business trends.

Our approach to pricing remains the same as it has always been, to leverage our sophisticated modeling and underwriting tools to assess risk on an extremely granular basis and administer the appropriate price and the exposure we are assuming. We remain committed to maintaining underwriting discipline even as we work with our policyholders and agents to navigate this challenging economic environment.

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Third, there has been considerable discussion and focus on the potential for industry losses arriving from COVID-19. All of our Standard Commercial Lines property and business owner policies require direct physical loss of or damage to property by a covered cause of loss to trigger coverage.

While each potential claim will be adjusted on its unique facts and based on the terms and conditions of their specific policy, COVID-19-related contamination, the existence of a pandemic and/or the resulting preventative government shutdown orders generally are not insured under the Standard Commercial Property and Business Owner policy. Our Standard Commercial Property and Business Owner policies also specifically exclude all loss or damage caused by or resulting from a virus or bacteria. We believe this exclusion will apply to preclude coverage from losses related to the COVID-19 virus.

Approximately 6% of our policyholders purchase a sub-limited, extra expense coverage that provides up to $25,000 in limit for the extra expense associated with cleaning the property when ordered by a Board of Health after an outbreak of a communicable disease at the insured premises. For our E&S book, our property forms contain the same language as Standard Commercial requiring direct physical loss or damage to property but do not contain a specific virus or bacteria exclusion. Property accounts for approximately 30% of our E&S business and of that amount, only about a quarter of our property policies include business interruption coverage. Combining both Standard Commercial and E&S, 95% of our property policies include virus or bacteria exclusions.

The impact of COVID-19 on other lines of business will vary. For example, the exposure reduction in workers' compensation and general liability in the form of lower payrolls or sales will likely be offset by a commensurate reduction in claims incurred. However, we could see some increased workers' compensation frequency from employees in high-risk roles at essential businesses who contracted COVID-19 in the workplace. We are experiencing decreases in claim frequencies for personal auto and, to a slightly lower extent, commercial auto due to lower miles driven and have already announced programs to return premiums for these classes, which are traditionally not subject to audit. For commercial property, lower economic activity will generally result in less claim frequency but the longer the downturn persists, the risk of frequency rises.

Finally, the sharp decline in equity markets during the first quarter and what appears to be a clearly prolonged low interest rate environment continue to put downward pressure on industry wide investment portfolio returns. The only way for insurers to compensate for lower expected investment returns is to continue to strive for improved underwriting performance. We are well positioned with our sophisticated underwriting and pricing tools, strong market position and appropriately priced in-force book of business to continue to generate profitable underwriting results.

Now, I'll turn the call to Mark to review the results of the quarter.

Mark Alexander Wilcox

Chief Financial Officer & Executive Vice President, Selective Insurance Group, Inc.

Thank you, John, and good morning. I will start with some more detail on the COVID-19 related items, go through our results and finish with an overview of our updated outlook for 2020. For the quarter, we recorded $0.84 of non-GAAP operating earnings per share and we generated a non-GAAP annualized return on equity of 9.4%. The three COVID-19 underwriting related items reduced operating income by $19.3 million or $0.32 per share and reduced our annualized operating return on equity by 3.6 percentage points.

In addition, these items reduced our net premiums written by 11% and increased our underlying combined ratio by 3.5 points. Overall, despite our operating ROE being below our target, it reflects a solid result particularly, in

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light of the proactive steps we took in the quarter to robustly model, quantify and reflect the negative financial impacts of COVID-19.

The $75 million return audit and mid-term endorsement premium accrual that John highlighted reduced our first quarter net premiums written by $75 million resulting in a 4% decline to net premiums written for the quarter. Absent this accrual, underlying premium growth was solid at 7%. The accrual represents our estimate of the full impact of the economic shutdown and the gradual reopening of the economy for in-force, worker's compensation and general liability commercial lines policies. Actual audit and mid-term endorsement premium adjustments will be reported to us over the coming quarters and these will be taken against this accrual.

In addition, we will adjust this accrual up or down during the course of the year as the depth and duration of the economic slowdown and its impact on exposures becomes fully known. The pre-tax impact for this accrual after considering premium earnings and reduced losses and underwriting expenses was $4 million. This increased our combined ratio by 0.5 percentage points and reduced earnings by $0.05 per share. The estimated pre-tax impact of this accrual for the remainder of the year is an $11 million reduction in underwriting income.

Given this accrual is earned in proportion to the runoff of in-force policies, the remaining impact will be more heavily weighted to the second quarter and then we expect that to reduce in the third and fourth quarters. The $10 million property IBNR which negatively impacted earnings by $0.13 per share and increased our combined ratio by 1.5 percentage points reflects the ultimate estimated net losses related to COVID-19 for the small portion of our policies that include a $25,000 sub-limited coverage for specified extra cleanup expenses. While COVID-19 is clearly a catastrophe with a wide range of industry loss estimates around the cat, for external reporting, we follow the disclosure practice that only named PCS events are included in our cat loss ratio, and thus far PCS has not yet designated COVID-19 as a catastrophe. Therefore, these losses are reflected in our underlying combined ratio.

Third, the $10.5 million increase in the allowance for uncollectible premiums receivable increased the expense ratio by 1.6 percentage points. Our allowance is now more than doubled to $18 million. To put that into perspective, while it can vary, we typically average around $4 million a year of uncollectable premium. To date, we have not yet seen a significant uptick in past due accounts or meaningful decline in daily premium collections. However, given the fact that the non-cancellation and billing leniencies we provided our customers extend well into the second quarter, we expect our exposure to uncollectible premiums to increase.

Absent the COVID-19-related items, our net premiums written growth would have been just over 7%, our operating EPS would have been $1.16, and our operating ROE would have been 13%, and our combined ratio 93.2%, all reflecting strong underlying performance in the quarter.

Turning back to our results, our consolidated combined ratio of 96.7% was 2.5 in the comparative quarter. This increase reflects the COVID-19 underwriting-related items and elevated catastrophe losses. Cat losses added 5.1 points to the combined ratio and were driven by $23 million of net losses from the early March tornados and subsequent hail in and around Nashville, Tennessee.

The high level of cat losses continued into April, and our second quarter results will include $35 million of pre-tax catastrophe losses from two severe storms which impacted our footprint in April. We continue to see favorable claims emergence in the quarter in our workers' compensation line of business. And this resulted in $10 million of favorable prior-year casualty reserve development. The favorable development benefited the combined ratio by 1.5 points.

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Non-cat property losses came in below expectations at 16.6 points on the combined ratio despite the inclusion of $10 million of COVID-19 property IBNR in this line item. The underlying combined ratio of 93.1% was in line with the comparative quarter. However, as noted, the underlying combined ratio included 3.5 points of COVID-19 charges. Absent these charges, the underlying combined ratio would have been 89.6%.

Moving to expenses, our expense ratio was elevated at 35.2% for the quarter due to $10.5 million of COVID-19-related bad debt expense and lower net premium return from the first quarter earned impact of the $75 million audit premium accrual. The combination of these two COVID-19-related items added 2.1 percentage points to the expense ratio. Absent COVID-19, the expense ratio was 33.1% which was a bit better than expected.

Premium volume this year will likely come under some pressure from lower exposures and pressure on new business growth. Pressure on the top line combined with the allowance for uncollectible premiums receivable and the approximately $20 million of premium credits to our personal and commercial auto customers that we expect to book in the second quarter's underwriting expenses will result in upward pressure on the expense ratio this year. We've instituted an expense management program for the remainder of the year which will provide some offsets. These factors have been reflected in our updated outlook, which I'll touch on in just a minute.

Over the longer term, we believe we can continue to improve our operational efficiency to drive down our expense ratio while also still making significant investments in developing our people, improving our underwriting capabilities, enhancing the customer experience, continued product development and other investments that are part of our long-term strategic plan. Corporate expenses, which are principally comprised of holding company costs and long-term stock compensation, totaled $5.8 million ater tax in the quarter compared with $8 million a year ago. The decrease was principally driven by a decline in our stock price in the first quarter.

Turning to our segments, Standard Commercial Lines reported a 5% decline in net premiums revenue, reflecting the $75 million return premium accrual. Absent this accrual, premium growth would've been 9%. New business growth was solid at 6%. Retention was strong at 85%, and renewal pure price increased to 4% this quarter. The combined ratio was 96.7% and the underlying combined ratio was 94.6%. Catastrophe losses accounted for 4 points, and net favorable prior year casualty reserve development in workers compensation helped by 1.9 points. The COVID-19 charges negatively impacted the segment's combined ratio by 3.9 points.

Our Personal Lines segment recorded a 2% decline in net premiums written, mostly reflecting the more competitive market conditions for personal auto. Renewal pure price increases averaged 3.7%. Retention remained solid at 83%, but new business was down 4%. The segment produced a combined ratio of 99.5% which included an elevated level of catastrophe losses at 15.7 percentage points, driven by the early March Tennessee tornado and subsequent hail. There was no casualty prior accident year reserve development. The underlying combined ratio was 83.8%. And the COVID-19 charges negatively impact the Personal Lines segment combined ratio by 2.2 points.

Our E&S segment generated 8% net premium written growth. Renewal pure price increases averaged 3.9%. Over the past few years, targeted price increases, business mix changes, and exiting specific underperforming classes of business have contributed to the improved combined ratio performance in the segment. The segment generated a 93.5% combined ratio and included light catastrophe losses of 0.8 points and no casualty prior accident year reserve development. The underlying combined ratio was 92.7%. The COVID-19 charges negatively impacted the segment's combined ratio by 2 points

Turning to investments, we came into this severe economic condition, a period of extreme volatility with a conservatively positioned investment portfolio. 92% of our portfolio is invested in core fixed income securities and

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short-term investments with an average credit rating of AA- including a high-yield allocation, an effective duration of 3.3 years, and a high degree of liquidity. Risk assets are currently underweight and represent around 8% of the portfolio. Given lower valuations, we expect to modestly increase our allocation of risk assets this year subject to market conditions. Our risk asset allocation includes just over 4% allocation of high yield, 3% to alternative investments, and under 1% to public equities.

We have stress tested our full fixed income portfolio using the 2001 to 2003 and the 2008 periods at which time there was a significant downwards ratings migration and credit losses for the market as a whole. Our portfolio holds up well in these stress scenarios and ratings migration risks and potential credit losses are very, very manageable.

After-tax net investment income of $45 million was up 10% from the comparative quarter. The improvement was driven by our alternative investment portfolio which reports on a one quarter lag partially offset by the lower interest rate environment that continues to put pressure on new money purchase yields. We reported $25 million of after-tax net other-than-temporary impairments in the quarter which were evenly spread between those securities for which we intend to sell to optimize our investment portfolio and those securities for which we recorded credit impairment under the new CECL accounting literature. The overall after-tax yield on the fixed income portfolio including high yields was 2.7% for the quarter. The average new money yield on the $320 million of fixed income purchases during the quarter was 2.5% after-tax.

Our capital position remains extremely strong with $2.1 billion of GAAP equity down 4.5% from year end with the declines driven by mark-to-market losses in our fixed income portfolio. Our net premiums written to surplus ratio is below the low-end of our target range of 1.4 to 1.6 times. We have $337 million of cash and investments at our holding company which represents over four full years of estimated cash flow needs.

As stated earlier, over the coming quarters, we plan to repay the $302 million of March short-term borrowings, $50 million of which was done at the holding company level and this will bring our debt to capital ratio back in line with where we had ended in 2009 (sic) [2019] and well below the upper end of our target range.

Turning to our 2020 guidance, after completing the ground up and robust actuarial and financial modeling exercise, to take into effect the estimated full year impact of COVID-19 on our financial results, we are revising our full year 2020 guidance as follows: a GAAP combined ratio excluding catastrophe losses of between 92% and 93%. This represents an increase from our prior guidance of 91.5% and is primarily due to pressure on the expense ratio. This also assumes no additional prior accident year reserve development.

Catastrophe losses of 4.5 points on the combined ratio reflecting higher than expected cat losses for April combined with lower than expected earned premium. Because COVID-19 has not been designated a PCS event, such losses are not included in this ratio.

After-tax net investment income of approximately $160 million, down from our prior guidance of $185 million, principally due to an expected change in our full year after-tax net investment income from alternatives. Although there is uncertainty around this estimate, we now expect a range of between $10 million and $15 million in after-tax net investment losses from alternatives for the year compared to our prior estimate of a $14 million gain.

An overall effective tax rate of approximately 18.5%, which includes an effective tax rate of 18.5% for net investment income, reflecting a tax rate of 5.25% for tax-advantaged municipal bonds and a tax rate of 21% for all other items. And weighted average shares of 60.5 million on a diluted basis. There is a higher degree of uncertainty than usual around our full year guidance given the ultimate impact of COVID-19 remains fluid.

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And with that, I'll turn the call back over to John for our closing comments.

John J. Marchioni

President, Chief Executive Officer & Director, Selective Insurance Group, Inc.

Thanks, Mark. While we continue to navigate a generational economic event along with our policyholders and distribution partners, we are extremely confident in the strength and positioning of the company. We have consistently maintained a disciplined underwriting appetite and have effectively managed renewal pure price increases in line with expected loss trend for a decade. Our field-based model, superior distribution relationships, and customer experience focus, a strength in any environment, are only enhancing the current one.

Our core competitive advantages have positioned us as a market of choice for our agency partners, and our ability to continue to deliver for them and our mutual customers throughout this crisis have further solidified that position.

We are cognizant of the economic and health-related hardships that so many people in our country are dealing with, and we salute all the essential employees who selflessly go to work each day so that we can all be safer and still have the basic necessities of life.

That said, we will not let the pandemic, market volatility or challenging economic conditions deter us from pursuing our objective of being an industry leader, one that is viewed as best-in-class in terms of product offerings and customer service while also generating superior returns for our shareholders over time.

With that, we will open the call up for questions. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you, speakers. We will now begin the question-and-answer session. [Operator Instructions] We have our first question from Mike Zaremski of Credit Suisse. Mike, your line is open.

John J. Marchioni

President, Chief Executive Officer & Director, Selective Insurance Group, Inc.

A

Good morning, Mike.

Charles Lederer

Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Hi, guys. This is actually Charlie on for Mike. Good morning.

John J. Marchioni

President, Chief Executive Officer & Director, Selective Insurance Group, Inc.

A

Good morning, Charlie.

Mark Alexander Wilcox

Chief Financial Officer & Executive Vice President, Selective Insurance Group, Inc.

A

Good morning.

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Charles Lederer
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Good morning. My first question is how are you thinking about workers' comp profitability being impacted due to the virus other than top line pressure?

John J. Marchioni
President, Chief Executive Officer & Director, Selective Insurance Group, Inc.

A

Yeah. So clearly, we've seen a reduction in newly-reported claims with the shelter-in-place orders and a lot of nonessential businesses being closed. That has holistically reduced claim frequency but as we've talked about in the prepared commentary, we would expect to see some compensable claims and predominantly from first responders and from medical professionals that are working routinely in connection or in contact with COVID-19 positive patients.

So that has not materialized as of yet in our portfolio. And our portfolio from a worker's comp perspective, we do have a heavy contractor portfolio so about 40% of our overall premium and, actually, just under half of our workers' comp premium is in the contractor segment which you wouldn't expect to see a lot of COVID-19 claim frequency from that group. But overall, we would expect to see some loss activity coming through. Comp is a line that if you looked at us over the last couple of years, you've seen a flat to slightly declining top line because of the pricing pressures that have been coming through that line.

We've obviously benefited in terms of significant improvement in underlying loss ratios, and that's continued. But with that pricing pressure and the reduction in exposures that are coming through, and that is a big driver of the audit premium adjustment that we made in the first quarter, that will have an impact on profitability going forward.

Charles Lederer
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Got it. Thanks. And then my second question is for the instances where you guys are having to deny business interruption claims, do you – is it reasonable for us to kind of expect legal defense reserves to come out of that? And then if business interruption losses aren't as widespread for the industry as some may have initially thought and we're seeing contractions in business activity, can commercial P&C pricing really continue to accelerate? Thanks.

John J. Marchioni
President, Chief Executive Officer & Director, Selective Insurance Group, Inc.

A

Thank you. Very good questions. Clearly – and you're already starting to see there is some litigation relative to business interruption coverage. Our sense is much of that litigation is focused on policies that do not contain a virus exclusion. And as we've mentioned in prepared comments, and I'll reinforce again, 95% of our policies across Standard Commercial and E&S do include a virus exclusion. I think that's even less subject to litigation challenge than the physical damage to property requirement which, in our view, is also a solid policy form. But I would expect we will see some increased litigation, and that will impact loss adjustment expenses. But, again, you want to remember that this is all in the context of the economic downturn impacting frequencies down pretty holistically. So, I think that's point number one.

Relative to the pricing environment, and we did give you in the prepared commentary our April pricing, which at 4% and very strong retention in the month of April, I think, suggests that pricing at a reasonable level. And, again, we've really made this point over the last several years with the embedded profitability in our book and our ability over 10 years now to continue to manage a reasonable level of pricing relative to expected loss trends that we've

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been able to maintain very strong retention. And we think that's still reasonable going forward. And April, which was the first real full month of the economic strain that we've seen for pricing to remain at that level, we think that's a positive.

Also, overall profitability before this crisis started for the industry still needed to improve. And as we've said earlier, with the continued low for longer investment return environment, it's only going to put more pressure on underwriting results. So, the underwriting results for the industry needed to improve. We're in a beneficial position because our core profitability is so strong, but we can't lose sight of the loss trends, the normal loss trends which have, in fact, picked up of late and in our estimation would continue to run around 3% – between 3% and 4% in a more normal environment. And I think that needs to be kept track of us as we move throughout this crisis. So we would expect pricing to remain on the trajectory that it's been on for the last several quarters.

Charles Lederer
Analyst, Credit Suisse Securities (USA) LLC (Broker)
Q

Got it. Thank you. That's helpful. Be well, guys.

John J. Marchioni
President, Chief Executive Officer & Director, Selective Insurance Group, Inc.
A

Thank you, Charlie.

Mark Alexander Wilcox
Chief Financial Officer & Executive Vice President, Selective Insurance Group, Inc.
A

Thank you.

Operator: Thank you. [Operator Instructions] Speakers, we have our next question from Sean Reitenbach of KBW. Sean, your line is open, sir.

John J. Marchioni
President, Chief Executive Officer & Director, Selective Insurance Group, Inc.
A

Good morning.

Sean Reitenbach
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Hi. I just have – good morning. I have a follow up on the workers' comp issue. We've seen, I think, more people who are opposed to the, rightfully so, the virus – legislation on virus exclusion and such. But the reaction to presumption of compensability to more frontline essential workers beyond health care has been more mixed. Can you guys give your thoughts on that?

John J. Marchioni
President, Chief Executive Officer & Director, Selective Insurance Group, Inc.
A

Yeah. Sure. So, I think as you said, we would certainly not be in opposition to legislation that would expand presumptions to first responders and to health care professionals that are in close contact with COVID-19 patients. Quite honestly, with or without a presumption, those are going to often times be viewed as compensable injuries. Now, we also need to remember that for the most part, the frequency of these will be low in terms of the incidence rate amongst working populations and the average severity on both the medical and indemnity side will also be low. So, I think it's important to keep that in mind.

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I do think and again, our philosophy in comp and overall is that the unique facts and circumstances presented in every individual claim are going to guide the outcome of that claim. And if you have an employee who was told – when everybody else was told to shelter at home, that they need to come to work in order to provide an essential service, and that essential service requires them to interact with the public on a regular basis and that individual tests positive for COVID-19, those facts are more than likely going to result in a decision that that's a compensable injury. And that applies with or without a legislative presumption.

Now, we do think it's dangerous for these presumptions to just open up to all essential employees because I think the fact that the individual, whether it's a grocery store worker or an individual working at an assisted living facility, it's important that the essential employee also had to interact with the public in order to create that exposure, whereas all essential employees, many of which were actually working from home shouldn't gain the benefit of that presumption. And I think those handful of states that have pursued a very broad presumption would create a much more problematic situation for the industry holistically. But narrow presumptions, we think are reasonable expectations for essential employees who interact with the public.

Sean Reitenbach
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thank you. And then, could you guys just compare and contrast what you've seen in your commercial auto versus your personal auto book for frequency and severity trends?

John J. Marchioni
President, Chief Executive Officer & Director, Selective Insurance Group, Inc.

A

So severity trends are just way too early to talk about. I mean, we've got several weeks of data and that's a line where your actual severity trends are going to develop over a much longer period. But I think from a frequency perspective, we have seen reductions in both personal and commercial auto, I would say, and we use this reference in our prepared commentary, it was slightly less of a reduction for commercial than it was for personal, which would make sense because you still have a lot of contractors and a lot of other business vehicles on the road.

Miles driven might not be the best way to look at commercial auto frequency indicators because miles driven might be relatively flat for certain business owners. But the amount of traffic and congestion on the road is likely to impact frequency on a favorable basis. So I'm not going to get overly specific about the reduction in actual claim frequencies, but let's just say commercial auto was down but down a little bit less than what we saw on personal auto.

Sean Reitenbach
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Thank you very much.

Operator: Thank you. And, speakers, we're showing no questions in queue at this time.

John J. Marchioni
President, Chief Executive Officer & Director, Selective Insurance Group, Inc.

A

Yeah. Why don't we just give it another minute to make sure nobody else wanted to queue up?

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Operator: Thank you. [Operator Instructions] Thank you. We show no questions, sir.

John J. Marchioni

President, Chief Executive Officer & Director, Selective Insurance Group, Inc.

Okay. Well, thank you, all, very much for joining and if you have any follow-up questions, please feel free to reach out to Rohan. Thank you very much.

Mark Alexander Wilcox

Chief Financial Officer & Executive Vice President, Selective Insurance Group, Inc.

Great. Thank you. Good morning.

Operator: Thank you. That concludes today's conference. Thank you, all, for joining. You may now disconnect.

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