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PRESENTATION

Operator

Good day, everyone, and welcome to Selective Insurance Group's First Quarter 2021 Earnings Call. At this time, for opening remarks and introductions, I would like to turn the call over to our Senior Vice President, Investor Relations and Treasurer, Rohan Pai. Please begin.

Rohan Pai - *Selective Insurance Group, Inc. - Senior VP of IR & Treasurer*

Good morning, everyone. We're simulcasting this call on our website, selective.com, and the replay will be available until May 28, 2021. 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 are also included in our annual, quarterly and current report filed with the U.S. Securities and Exchange Commission. Non-GAAP operating income and non-GAAP operating return on common equity, which we use to analyze trends in operations and believe make it easier for investors to evaluate our insurance business. Non-GAAP operating income is net income available to common stockholders, excluding the after-tax impact of net realized gains or losses on investments and unrealized gains or losses on equity securities. And non-GAAP operating return on common equity is measured as non-GAAP operating income divided by average common shareholders' equity 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 reports filed with the U.S. Securities and Exchange Commission, which includes supplemental disclosures related to COVID-19 pandemic. You should be aware that Selective undertakes no obligation to update or revise any forward-looking statements.

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.

Now I'll turn the call over to John.

John Joseph Marchioni - *Selective Insurance Group, Inc. - CEO, President & Employee Director*

Thank you, Rohan, and good morning.

I'll make some opening remarks on our first quarter financial performance and outlook, and then turn it over to Mark to provide the details on our results. I'll return to provide an update on some of our strategic growth initiatives before opening the call up to questions.

We're off to an excellent start in 2021 with a 16.2% annualized non-GAAP operating ROE. This was an exceptional result in the context of a challenging economic backdrop, continued overall low interest rate environment and elevated catastrophe losses for the industry. It is also well above our operating ROE target of 11%, continuing our strong track record of consistent and superior results.

Our first quarter results reflected strong contributions from both underwriting and investment operations. Our solid premium growth of 11%, when adjusted for the prior year COVID-19-related audit premium accrual, was driven by overall renewal pure price increases averaging 5.4% and strong retention rates. Our continued ability to generate solid premium growth in the current economic climate is driven in large part by our extremely strong distribution partner relationships, sophisticated and granular pricing and underwriting tools and superior customer servicing capabilities.

Our 89.3% combined ratio for the quarter benefited from catastrophe losses that were in line with our expectations and 4.8 points of favorable prior year casualty reserve development. Our solid underlying combined ratio of 90% is a testament to the quality of our book of business.

While we have seen early signs of a return towards normal economic activity, depending on geography and class of business, overall claim frequencies in the quarter have remained below pre-COVID levels. That said, much uncertainty remains regarding the impact of late reported claims and increased severities. Therefore, our 2021 accident year casualty loss ratios remain on plan, and our 2020 casualty loss ratios remain at the levels booked at year-end 2020.

I'd like to highlight a few key themes. First, we continue to execute extremely well against our objectives of balancing growth and profitability. While it's easy to grow in our industry, generating consistent and profitable growth is far more difficult. The tailwind of higher market pricing has certainly helped our execution over the past year, but what often gets overlooked is our consistent and disciplined approach over the long term. We've established a decade-long track record of obtaining renewal pure price increases that are in line with or above expected loss trend. This approach positions us with a lower rate need than some of our competitors, who have needed to make up for several years of renewal pure pricing well below expected loss trend. Having confidence in the quality of our overall book and strength of our reserve position enables us to grow as we see additional business opportunities that meet our profitability expectations.

For the first quarter, Commercial Lines renewal pure price increased 5.7%, while renewal retention rate remained extremely strong at 86%, up 100 basis points from a year ago. For smaller accounts with policy premium of less than $10,000, renewal pure price increased 5% in the quarter, while larger accounts in excess of $100,000 in premium generated renewal pure price increases of 6%.

Across all size cohorts, our highest-quality accounts based on future profitability expectations, which constitute 25% of renewal premiums, produced 3.3% pure rate and point of renewal retention of 93%. Our lowest-quality accounts comprising 10% of our renewal premium generated 10% pure rate and point of renewal retention of 83%. By understanding the risk and return characteristics of each basket of policies, we're able to administer our pricing and retention strategies on an extremely granular basis. This has allowed us to increase retention while generating loss ratio improvement through an improved mix of business.

Second, while long-term interest rates are up so far this year, they still remain extremely low from a historical perspective. The low interest rate environment will lower book yields on the investment portfolio and the related ROE contribution from investments over time. Our investment strategy is designed to be conservative with a goal of supporting our underwriting operations from a capital and liquidity standpoint. We do not intend to materially change investment allocation as a means of generating higher yield, and our focus will remain on increasing underwriting margins to offset the impact of lower interest rates to generate adequate returns. This is an industry-wide issue, putting greater pressure on companies that are not generating target returns to further improve underwriting performance.

Third, industry-wide pricing for the property lines should increase to better reflect continued elevated losses from catastrophe and non-catastrophe weather-related events. The elevated industry catastrophe losses in the quarter, particularly for winter storms Uri and Viola, reflect a continuation of the increasing trend in frequency and severity of weather-related events. We booked a $17 million net loss in aggregate for both events. We managed our catastrophe risk through a disciplined underwriting process and a conservative reinsurance program that attaches at $40 million per occurrence within our primary footprint states. This retention falls to $5 million for states that are outside our standard lines footprint.

Climate-related loss activity, including those from hurricanes, convective storms, hail storms, wildfires, derechos and winter storms have resulted in substantial losses for the industry in recent years and remains a major risk going forward. Climate change poses a longer-term risk for our industry, our business and our customers, resulting in higher frequency and severity of catastrophic losses. Our climate risk mitigation strategy is focused on understanding and mitigating catastrophe risk on our business and helping our customers mitigate their risks and recover quickly after experiencing losses.

Finally, I wanted to highlight the extremely strong capital and liquidity positions at our holding company and insurance subsidiaries, which remain at record levels. We have more than adequate capital to support our strong organic growth while also evaluating other attractive capital deployment options. Late in 2020, our Board authorized a $100 million share repurchase program, which we have begun deploying opportunistically at price points that we believe generate attractive returns for our shareholders.

I'll come back to provide additional commentary, but now I'll turn the call over to Mark to review the results for the quarter.

Mark Alexander Wilcox - *Selective Insurance Group, Inc. - Executive VP & CFO*

Thank you, John, and good morning.

I'll review our consolidated results, discuss our segment operating performance and finish with an update on our capital position and guidance for 2021.

For the quarter, we recorded excellent net income available to common stockholders per diluted share of $1.77 and first quarter non-GAAP operating earnings per share of $1.70. We reported an annualized ROE of 16.8% and a non-GAAP operating ROE of 16.2%, with meaningful contributions from both our insurance and investment operations. Our results for the quarter compared favorably with our 2021 non-GAAP operating ROE target of 11% set earlier this year, which translated to an approximately 400 basis points spread over our weighted average cost of capital. Overall, we are off to a very strong start to 2021 from a growth and profitability perspective.

Consolidated net premiums written increased 23% compared with a year ago or 11% when adjusted for the COVID-19-related $75 million audit premium accrual booked in the prior year period. The primary drivers of our top line growth was strong renewal pure pricing and higher retention in Commercial Lines and strong renewal pure pricing and solid new business growth in our E&S segment. Personal Lines premiums continued to be under pressure.

We reported an extremely strong consolidated combined ratio of 89.3% for the quarter. Included in the combined ratio are $30 million of catastrophe losses, which accounted for 4.1 points; and $35 million of net favorable prior year casualty reserve development, or 4.8 points. On an underlying basis, or excluding catastrophes and prior year casualty reserve development, the combined ratio was 90% in the quarter compared to 93.1% in the prior year period. The strong underlying combined ratio reflects a lower first quarter expense ratio and better-than-expected non-cat property losses. In addition, recall that last year, our first quarter combined ratio included 3.5 points of COVID-19-related items.

Moving to expenses. Our expense ratio was 32.1% for the quarter compared with 35.2% for the prior year period. The year ago expense ratio included 2.1 points of specific COVID-19-related items, including a provision for bad debt and the earned impact of the audit premium accrual. The primary drivers of the underlying expense ratio improvement were ongoing expense management initiatives and reduced travel and entertainment as well as lower overhead, general and administrative expenses. While we expect travel and entertainment expense to start reverting back to more normal levels during the course of the year, we continue to expect some expense ratio improvement this year into next.

Corporate expenses, which are principally comprised of holding company costs and long-term stock compensation, totaled $9.6 million in the quarter compared to $9.1 million a year ago due to slightly higher stock-based compensation expense that was driven by the increase in our stock price, which impacted the variable component of our long-term incentive compensation plan.

Turning to our segments. For the first quarter, Standard Commercial Lines increased net premiums written 28% or 12% when adjusted for the year ago $75 million audit premium accrual. As a reminder, the $75 million reductions in our first quarter 2020 net premiums written from the audit accrual impacted our general liability line by $46 million and our workers compensation line by $29 million. We have recorded $70 million of negative audit and midterm endorsement premium against the accrual over the last year, and the accrual now stands at $5 million. With the forecast of significant growth in the U.S. for the remainder of this year, we expect audit and midterm endorsement premium to become a tailwind later this year.

Turning to retention and pricing in Standard Commercial Lines. Our retention increased 100 basis points over the comparative quarter to 86%. Our renewal pure price, which has been increasing in the recent quarters, was a healthy 5.7%. New business, however, was down 1% year-over-year in what was a competitive environment. The Commercial Lines combined ratio was 88.2% for the quarter and included 2.7 points of catastrophe losses and 5.1 points of net favorable prior year casualty reserve development. The favorable prior year reserve development consisted of $15 million from each of the workers compensation and general liability lines of business due to favorable claims emergence by accident years 2018 and prior. The underlying combined ratio was 90.6%.

In our Personal Lines segment, we reported a 4% decline in net premiums written for the quarter, reflecting continued competitive market conditions, particularly for personal auto. Renewal pure price increases averaged 0.8%. Retention was flat relative to a year ago at 83%, and new business volume was down 1%. The combined ratio in the quarter was 89.6%, and the underlying combined ratio was 82%.

In our E&S segment, we reported 10% net premiums written growth for the quarter relative to a year ago. Renewal pure price increases averaged 7.3%, and new business was up a strong 14%. The combined ratio for the segment was elevated at 99.2% in the quarter, driven by catastrophe losses of $8.3 million that contributed 13.3 points to the combined ratio. The cat losses were principally driven by $5.1 million in net losses from winter storm Uri. Recall we write E&S business across all 50 states. Prior year casualty favorable reserve development totaled $5 million and lowered the combined ratio by 8.1 points. The underlying combined ratio of 94% reflects the non-cat property volatility that resulted in a non-cat property loss ratio 4.6 points above the comparative quarter.

Moving to Investments. Our investment portfolio remains well positioned. As of the quarter end, 92% of our portfolio was invested in fixed income and short-term investments with an average credit rating of AA- and an effective duration of 3.9 years, offering a high degree of liquidity. Risk assets, which include a high-yield allocation contained within fixed income, public equities and limited partnership investments in private equity, private credit and real asset strategies, represent 10.9% of our investment portfolio, with the increase of 10.4% at year-end primarily driven by increased valuations.

After-tax net investment income of $56.3 million was up 24% from the comparative quarter, with the growth driven primarily by $16 million of after-tax alternative investment gains, which we record on a 1 quarter lag. The after-tax yield on the total portfolio was 3% for the quarter, delivering a very strong 8.9 points of ROE contribution. The total return of the portfolio was a negative 0.4% for the quarter, reflecting impact of rising longer-dated benchmark interest rates on the value of our fixed income securities portfolio, which more than offset the continued decline in credit spreads.

The average after-tax new money yield on fixed income purchases during the quarter continued to decline and was 1.7% compared with 2.2% in the fourth quarter and 2.4% for 2020. Cash flow was strong with $130 million of operating cash flow in the quarter, which equated to 16% of net premiums written.

Turning to the capital. Our capital position remains extremely strong with $2.74 billion of GAAP equity. We have built significant financial flexibility with $490 million of cash and investments at our holding company. Our net premiums written to surplus ratio is slightly below our target range of 1.33x, and our debt-to-capital ratio was 16.7% at March 31. Given our strong capital position, we have the financial flexibility to grow at rates well above our 7% to 9% sustainable growth rate for the foreseeable future as we find attractive opportunities. Of course, our focus will continue to be on discipline and profitable growth.

In December 2020, our Board authorized $100 million share repurchase program that allows us to opportunistically buy back shares in the open market when we deem returns are attractive for our shareholders over the long term. During the quarter, we repurchased approximately 53,000 shares at an average price of $64.49 for a total of $3.4 million, leaving $96.6 million of remaining capacity under our share repurchase program. We have not repurchased any shares subsequent to quarter end.

I'll finish with some commentary on our updated guidance for 2021. First, we now expect the GAAP combined ratio, excluding catastrophe losses, of 90%. This is an improvement from our prior guidance of 91% and reflects the strong profitability inclusive of the net favorable casualty reserve development in the first quarter. Our guidance assumes no additional prior accident year casualty reserve development. Our catastrophe loss assumption remains 4 points on the combined ratio. We're now projecting after-tax net investment income of $195 million, including $31 million in after-tax gains from our alternative investments. This is up from our prior guidance $182 million and principally reflect increased net investment income from alternatives.

We continue to expect an overall effective tax rate of approximately 20.5%, which includes an effective tax rate of 19% for net investment income and 21% for all other items. And weighted average shares remain 60.5 million on a diluted basis.

With that, I'll turn the call back over to John.

John Joseph Marchioni - *Selective Insurance Group, Inc. - CEO, President & Employee Director*

Thank you, Mark.

I'd like to highlight some of our major areas of strategic focus as we move through 2021. We continue to execute on our plans to generate profitable growth that significantly outperforms Commercial Lines industry results. Our solid capital position provides us with the flexibility to evaluate various growth opportunities, and focus is on those that enhance our market position with our customers and distribution partners while generating attractive returns for our shareholders.

We continue to identify ways to bring additional value to our various stakeholders to further build a franchise that is positioned for long-term strategic and financial outperformance. The major drivers of our organic growth strategy in Commercial Lines are increasing share of our distribution partners' overall premium to 12%, appointing new distribution partners to achieve a 25% agent market share and expanding it to new states.

As we've been highlighting on recent calls, we continue to invest in tools and technology that enhance our market position with our agents. The MarketMax tool, which provides our distribution partners with insights into their overall portfolio and identifies opportunities for them to grow their business with us, has now been rolled out to approximately 300 of our distribution partners, and we expect to increase this to 400 by year-end. The tool has seen strong acceptance among our partners, who are often eager to consolidate their business with fewer carriers that can offer superior service and offerings while optimizing their overall relationship.

We rolled out our new small business platform for BOP products to all agents in the fourth quarter of 2020. We significantly streamlined the quoting and issuance process for these accounts and experienced a strong increase in BOP small business submission since the rollout. During the first quarter, we expanded the platform to include coverages such as general liability and bundled Inland Marine for small contractors with additional products and a broader rollout planned for the remainder of the year.

In Personal Lines, we're on track for the third quarter launch of our homeowners product targeting the mass affluent market, a customer base that places greater importance on coverage and services. Later this year, we plan to launch coverage enhancements to our auto product designed to better serve this customer segment. We've already seen some positive momentum in our mix of business prior to the official launch.

We saw solid growth in our E&S segment during the first quarter and expect improving performance moving forward as we continue to roll out our new agency automation platform that will further enhance our competitive position. As we look to the remainder of 2021, I remain extremely confident about our unique market position and strategy. We have the tools, talent, capabilities and distribution partnerships in place to position us for continued excellent performance. We have demonstrated over the past 7 years our ability to leverage these capabilities to generate consistent double-digit ROEs while profitably growing the business at a healthy rate.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Speakers, our first question is coming from the line of Matt Carletti from JMP.

Matthew John Carletti - *JMP Securities LLC, Research Division - MD & Equity Research Analyst*

Just a couple of questions on Standard Commercial. Mark, I always struggle to keep up. You speak fast. I believe you split out the audit premium, COVID-related headwind, the $75 million across. I think I caught $29 million on workers comp. Maybe I'm making that up. And across, I'm assuming GL is the other piece of it. Is that correct? Are those the buckets?

Mark Alexander Wilcox - *Selective Insurance Group, Inc. - Executive VP & CFO*

You have it correct, Matt. It was $29 million in workers compensation in Q1 2020 and $46 million in general liability in Q1 2020 for a total of $75 million. I just wanted to provide those because the growth rate for those lines of business looks a little overstated on a comparative quarter if you don't adjust for that.

Matthew John Carletti - *JMP Securities LLC, Research Division - MD & Equity Research Analyst*

Yes. Perfect. And then yes, so following on that, I mean, if we adjust particularly workers comp for that, it was a pretty nice acceleration in growth even adjusted for that. Can you talk a little bit about what's going on there? Is it just the return to better work activity? So is it more kind of payrolls on your existing accounts? Or is it more new business pushing that?

John Joseph Marchioni - *Selective Insurance Group, Inc. - CEO, President & Employee Director*

Yes, Matt. This is John. I'll take that. So I think you've got a few things happening there, and part of it is price related, more so for general liability than it is for workers comp where pricing is still relatively flat. And we also see exposure starting to improve. So we saw on an all-lines basis, and I'm not breaking out specifically the individual lines. But on an all-lines basis, in Commercial Lines in Q1, our exposure was up just under 1.5%. So I think that's the other part of it. And then you add to that about 100 basis point increase in retention rates, and those are all contributing to growth. New business was relatively flat overall.

And again, mix matters in terms of the segments that we write. And I think we saw a little bit stronger growth in the quarter in manufacturing, a little bit flatter in contracting. So some of that will also push around your individual lines a little bit. I would say those were the major drivers. You got strong retention, a little bit of bump up in exposure on your renewal portfolio, and so price working through there.

Matthew John Carletti - *JMP Securities LLC, Research Division - MD & Equity Research Analyst*

Okay. Great. And then just one other modeling question. The $16 million of cats in that segment, do you have the buckets? The -- I'm assuming the bulk was commercial property, but maybe some fell into BOP and commercial auto.

John Joseph Marchioni - *Selective Insurance Group, Inc. - CEO, President & Employee Director*

Yes. Just give us a second to get to that.

Mark Alexander Wilcox - *Selective Insurance Group, Inc. - Executive VP & CFO*

Yes. Most of it sits in commercial property, but I can kind of break that out if you like. So of the 16 -- call it, $16.1 million of cats in Standard Commercial Lines in Q1, $13.7 million came out of commercial property; and then the balance came out of BOP, which is $2.2 million. There was a little bit in commercial auto, but that was approximately $200,000. So those were the 3 -- of the breakout of the cats into the 3 different lines of business.

Matthew John Carletti - *JMP Securities LLC, Research Division - MD & Equity Research Analyst*

Okay. Perfect. Well, that's all I got. Congrats on a nice start to the year.

Mark Alexander Wilcox - *Selective Insurance Group, Inc. - Executive VP & CFO*

Thank you, Matt.

Operator

Speakers, our next question is coming from the line of Meyer Shields from KBW.

Meyer Shields - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Great. John, I'm trying to understand some of the marketplace dynamics and the impact on your expectations. Basically, the premise is that we're seeing Travelers' retention rate on smaller accounts decline. And I'm wondering, is that influencing growth? And is there a difference in the quality of accounts that you write when you win them from bigger competitors compared to what you win from smaller competitors?

John Joseph Marchioni - *Selective Insurance Group, Inc. - CEO, President & Employee Director*

Yes. So first of all, tough questions to answer. I'll hit the second one first, which was relative to where the competitor that the business was priorly written. I don't necessarily see a difference there in terms of expected performance because we look very closely each quarter at what our new business pricing is relative to target by previous insurer. So we know where the business is coming from. We know where it is by class and what our pricing deviation is against each of those competitors. So we look at it at a fairly low level of detail. And I would say there's no difference in the pricing we need to win accounts from a larger company than from a smaller company. So there's nothing I would see there that would suggest that the profitability expectation going forward would be any different.

With regard to your first -- the first part of your question, yes, I can't speak for Travelers, who is a great competitor in the marketplace. But on the small commercial side, for us, we pride ourselves on driving retentions higher because our book of business is so strong. And we focus really on 2 areas, one of which is being as granular as possible in how we manage our pricing strategy. That's why we disclose each quarter what our pricing is for the -- what we expect to be the best cohorts versus those that we think need a little bit more price and the relative retentions on both. And I think that's an important consideration.

But the other part of this is -- and I know we continue to point to this, but the track record over 10 years of managing pricing on a consistent basis relative to expected loss trends allows us to be a very consistent player in the market for our distribution partners. So you're not getting that big rate movement from 1 year to the next, which causes a fair amount of disruption.

And then the final point that I'll make, and this is not relative to any individual competitor, our books of business are different in terms of what we write. And I think if you look at our small business makeup, it does tend to be a little bit less focused on small retail restaurants, some of the most heavily impacted accounts from a pandemic perspective. And I think that has probably helped our -- because it's more contractors-focused, it's probably helped our retentions hold up a little bit stronger than some that might have a slightly different mix of business.

Meyer Shields - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Okay. That's very, very helpful. The second question, assuming -- and this is maybe my words, not yours. Assuming that we have sort of unprecedented audit premiums coming over the next 12 months, are there any G&A expenses associated with that?

John Joseph Marchioni - *Selective Insurance Group, Inc. - CEO, President & Employee Director*

Yes. Well...

Mark Alexander Wilcox - *Selective Insurance Group, Inc. - Executive VP & CFO*

There's no G&A per se, but you would have the commission associated with it. So it doesn't come through -- or come through on a written and an earned basis but would have the associated commission associated with it, but not necessarily incremental G&A.

John Joseph Marchioni - *Selective Insurance Group, Inc. - CEO, President & Employee Director*

Yes. And I think the other part of it is -- because that premium does bring with it exposure. So from a loss ratio perspective, I don't know that I would anticipate that there's a big uplift in profitability. And again, I realize companies will try to parse exposure that acts like rate versus exposure that doesn't act like rate, and that could get challenging when you're adding a vehicle. That's exposure that obviously brings with it additional losses. If your payrolls are driving exposure increase but your number of employees are staying stable, you're still getting some additional exposure there because your indemnity costs are going to go higher on a relative basis.

But I also want to make sure -- I mean, we were very careful in terms of taking the action on our audit premium accrual that we thought was appropriate. So we carried on our premium reserve. We built an obligation to reasonably estimate that amount. We did, and we recorded that, and it really allowed us to manage the change in exposure a lot more proactively. I don't know that I would necessarily anticipate some massive rise in exposure for companies that's just going to be driven by a bounce-back in the economy because for the most part, you've got -- certainly comp and GL are influenced by audit premium and exposure change. But you've got a lot of other non-auditable lines, whether it's the business owners line or the property line. And again, property line will be influenced if building values go higher, and you've got some inflationary adjustments built in there. But I'm not sure you're going to see this massive bounce-back in exposure come through and positively influence some companies in terms of profitability.

Meyer Shields - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

No, that's very helpful. I was really looking for some thoughts on the expense ratio, but that was immensely informative.

Operator

(Operator Instructions) Speakers, our next question is coming from the line of Scott from RBC Capital Markets.

Scott Gregory Heleniak - *RBC Capital Markets, Research Division - Assistant VP*

Yes, just had a few here. The first, just wondering if you could touch a little bit on, yes, frequency versus severity kind of across a couple of the major lines. Yes, I'd imagine, obviously, the frequency part of it is pretty favorable right now, given where the economy has been in the past few quarters, and we've seen that across a number of companies. But I wonder if you could talk about the severity part of it as well, particularly in workers comp, GL and commercial auto. We've heard, particularly in commercial auto and workers comp, a few companies talking about some increases in severity even though the frequency is down. And just wondering what you're seeing in your book in some of those key lines.

John Joseph Marchioni - *Selective Insurance Group, Inc. - CEO, President & Employee Director*

Yes. I think -- this is John. I think what we're seeing is fairly similar, but I wouldn't suggest that the severity is that much different from expected and certainly isn't to a level where it's overcoming the frequencies that have generally come in better than expected. And again, I want to put this in context of our -- the approach we've always taken, which is you're talking about evaluating actual severities versus expected severities looking back at your more recent prior accident year. So the question is, what do you have embedded in there? And I think the fact that we have routinely included an increasing expected loss trend in those loss picks has allowed us to absorb what might be a little bit of a movement from a severity perspective. But I would say, generally speaking, you're spot on with regard to GL and comp, which is frequencies have run much better than expected, severities have emerged a little bit worse than expected, although not enough to overcome that improvement in frequency.

I think auto has been a little bit different, and I think we've cited this pretty consistently, which has been more of a frequency-driven, at least for us. Looking back, it's more of a frequency-driven impact that's impacted those prior loss ratios, less so severity. But again, these are things you want to monitor going forward. I think it's very hard to comment at this point on the most recent accident years. Certainly, in 2020, with the immaturity of that book and the fact that frequencies did perform much better than expected, we've highlighted the uncertainties around severity. But just a quarter out from year-end, it's really hard to put any credence in what we're seeing in terms of incurred severity.

Scott Gregory Heleniak - *RBC Capital Markets, Research Division - Assistant VP*

Okay. That's helpful. That makes sense. And then just -- I wonder if you could give a little more detail on the reserve releases. I know you mentioned -- for Commercial Lines, you mentioned in 2018 and previous accident years, this is the highest level of releases we've seen in a while. And I'm assuming it's in workers comp and GL mostly. So if you could comment on that as well as E&S line, which had releases for the first time in quite a long time. And wondering if you can just give a little more detail on some of those areas.

Mark Alexander Wilcox - *Selective Insurance Group, Inc. - Executive VP & CFO*

Sure, Scott. This is Mark. Why don't I start, and John can jump in as well. So you're absolutely right, the net favorable casualty reserve development was pretty significant in the first quarter, $35 million or 4.8 points of benefit on the combined ratio. $30 million of that, as I mentioned, was in Standard Commercial Lines and $15 million of that in each of workers compensation and general liability. And then for the first time, we did see favorable claims emergence within E&S, and that was $5 million, so that $35 million in total.

As I mentioned in my prepared comments, it was really 2018 and prior. And if you were to break that out, just provide a little bit more specificity, about $13 million came out of the '18 year, $11 million out of '17, $4 million out of '16, and $2 million out of '15, and that's the majority of $30 million of the $35 million. And that's where we essentially saw a very favorable claims emergence, which we responded to in the quarter.

John Joseph Marchioni - *Selective Insurance Group, Inc. - CEO, President & Employee Director*

So I think when you look at it by individual accident years, these are not big numbers coming through on an individual accident year basis. But the other thing for comparative purposes is, if you look back over the last couple of years, we did have probably an offsetting movement in commercial auto going the other way that probably tempered some of the overall reserve release impact, which is not the case.

Mark Alexander Wilcox - *Selective Insurance Group, Inc. - Executive VP & CFO*

Yes. And as John mentioned in his prepared comments, we haven't made any adjustments to the loss picks of the 2020 year, so it's still a little bit too early to respond to any trends that might be coming through on the 2020 year.

Scott Gregory Heleniak - *RBC Capital Markets, Research Division - Assistant VP*

All right. Perfect. The last question, just on the renewal pricing. It ticked up a little bit in Q1 versus Q4. Some of the other companies we've seen have sort of kind of seen a leveling off or even a slight deceleration in their pricing. And wondering if you can talk a little bit about -- I know you mentioned some detail on what you're kind of seeing on pricing. But do you expect that kind of the trend to continue to build as the year goes on? And are you able to share anything with what you're seeing in April pricing-wise?

John Joseph Marchioni - *Selective Insurance Group, Inc. - CEO, President & Employee Director*

So we haven't and don't plan on sharing anything about April on this call. And let me just talk a little bit about the market on a go-forward basis. And I do think, Scott, I know we've mentioned this in the past, each company's portfolio is different, and their line of business mix is different. And I still think what we're seeing in the marketplace from a headline price change number is being driven by a lot of the high exposure lines that we don't really play in. So whether it's your professional lines, your high-hazard property, your excess limits, significant excess limits on more hazardous classes, those are the numbers that were really driving the high reported pricing that you saw. And I think you probably are starting to see a little bit of tempering there.

But on the smaller and middle market end of the pricing scale, when you look at the various surveys, I would say it's been holding pretty steady. And at least at the smallest end of the market, you've seen some other companies see some sequential improvement in their underlying pricing on a go-forward basis, similar to what we saw. And again, I think it's always important to reinforce, and I'm not projecting out our rate expectation for the year but just want to talk about the market dynamics that we think continue to push in a manner that suggests weight will remain strong relative to expected loss trends. And #1 is the low prolonged interest rate environment. And again, we're pleased with our results, but we also don't get overwhelmed by the fact that we had a strong alternative investment quarter.

And on the core fixed income for us and everybody else, your new money rates are still running below what is rolling off of maturities and other disposals. So there is some pressure that everybody is feeling when they project forward margins and realize that you're going to have to make up for that on the underwriting side.

I touched on in the prepared remarks that cat and non-cat losses, which continue to be elevated for everybody. Property is a line that everybody recognizes now they need to run at a much lower combined ratio in a normal loss year because they're going to have those years like we've seen in the last couple and then as we price into the product. You've got a firming reinsurance market that has not gone away. It's not just about pricing, but it's also about terms and conditions in certain cases. And you've got elevated loss trend. And I think that's an important point. And some are talking about it as though it's a new phenomenon over the last couple of years. From our perspective, what we would have normally built in several years ago, which is expected loss trends of about 3% is now running around 4%, and that's got to be made up for in margins.

And then the final point is, well, our results are very strong, and some of our public peers are also putting up strong results. The broad Commercial Lines industry still has work to do in terms of margins. And most, whether it's Conning or AM Best, everybody's got the Commercial Lines industry right around 100% combined ratio. And I think that suggests that margin improvement is necessary without these other influences that we think continue to persist.

Operator

Currently, we don't have any questions in the queue. (Operator Instructions) Speakers, at this time, we don't have any questions in the queue. So with that, I'll go ahead and turn the call over back to John. John, please go ahead.

John Joseph Marchioni - *Selective Insurance Group, Inc. - CEO, President & Employee Director*

Great. Well, thank you all for your time this morning. We appreciate your participation and your questions. And as always, feel free to follow up with Rohan or Mark with any follow-ups. Thank you.

Mark Alexander Wilcox - *Selective Insurance Group, Inc. - Executive VP & CFO*

Thank you.

Operator

Thank you. And that concludes today's call. Thank you so much for your participation. You may now disconnect.