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PRESENTATION

Operator

Good day, everyone. Welcome to Selective Insurance Group's Second 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. Please begin.

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

Good morning, everyone, and welcome. We're simulcasting this call on our website, selective.com, and the replay will be available until August 28, 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 our 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 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 and unrealized gains or losses on equity securities. And statements and projections about our future performance.

These forward-looking statements under Private Securities Litigation Reform Act of 1995 are not guarantees of future performance and are subject to risk 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 the COVID-19 pandemic. You should be aware that Selective undertakes no obligation to update or revise any forward-looking statement.

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 introductory remarks and then focus on some high-level themes impacting the industry and our company. Mark then will discuss our financial results, and I'll return to highlight how we continue to invest in strengthening our platform, and remain well-positioned to generate continued superior financial performance.

Let me begin by saying I remain extremely proud of how our employees have navigated through this difficult period, delivering exceptional service to our customers and distribution partners despite the various challenges posed by COVID-19. As we stated in our earnings prerelease, elevated catastrophe losses, which were well in excess of the historical mean for the industry, alternative investment losses that we report on a 1 quarter lag and the impacts of COVID-19 obscure the strong underlying results of our business.

Our premiums written growth remained solid despite the challenging economic environment, and we are pleased to report a profitable all in 98.4% combined ratio despite the higher catastrophe losses. From financial standpoint, for the second quarter of 2020, Selective reported non-GAAP fully diluted operating earnings per share of $0.40 and an annualized operating ROE of 4.4%. There were 3 main items that negatively impacted our results during the quarter.

First, we reported $83 million of catastrophe losses, which was a historically significant loss for us. These losses related to numerous catastrophe events. Those more meaningful to our results included $43 million of losses related to 2 April storms and $20 million of claims related to civil unrest.

Second, alternative investment losses totaled $16 million compared to a gain of $7 million in the year-ago period. We report alternative investment performance on a 1 quarter lag, and the results reflect a decline in investment values during the first quarter. With the market rebound in the second quarter, we expect our third quarter return on alternative investments to be much stronger.

Third, COVID-19 related items, including a continued earnings of the $75 million audit premium accrual booked during the first quarter and a slight increase to our premiums receivable allowance for doubtful accounts, totaled $10 million and added 1.3 points to the combined ratio. In addition, we returned approximately $20 million in premium credits to our commercial and personal auto customers, with an offsetting reduction in reported losses for those lines of business. Partially offsetting these items was continued net favorable casualty reserve development, lower-than-expected non-catastrophe property losses and ongoing expense management initiatives.

I'd like to highlight a few key topics. First, with respect to the COVID-19 pandemic, this is an ongoing and tragic event that is impacting the health and livelihoods of numerous people around the country and across the world. From a financial standpoint, we took a prudent and proactive approach during the first quarter to reflect our estimates for potential exposures to the event. And with the passage of another quarter, these estimates have largely helped.

The following 3 estimates are recorded in the first quarter. Number one, a $75 million return audit and midterm endorsement premium accrual to reflect the anticipated decline in exposures on our in-force premium for the workers' compensation and general liability lines of business, for which, through June 30, the remaining accrual stands at $61 million. Second, a $10 million in property IBNR for losses related to a small portion of our property policies that have specific sublimit coverage for extra expense associated with a government ordered cleaning. To date, we have not incurred any claims against this IBNR.

And third, a $10.5 million increase in our allowance for uncollectible premiums receivable, reflecting potential policy cancellations and nonpayment of premium. In the second quarter, we increased this allowance by $3 million. Despite the COVID-19 exposures, loss trends were generally favorable, benefiting from the lower level of economic activity. This was particularly evident for the auto lines where driving activity declined substantially due to various government shelter and place directives, although this was far more so for personal auto than commercial auto.

While claim frequencies were down during the quarter, we maintained our casualty lines loss ratios on plan for non-auto lines due to the long tail nature of these exposures, the inherent uncertainty projected by COVID-19 and the current volatile economic environment. The reductions for our personal and commercial auto insurance loss ratios reflect the earned impact of the premium credits, which reduced premiums and losses by equivalent amounts.

The second topic I want to highlight was a significant level of catastrophic loss activity for us and the industry during the second quarter. Insured catastrophe losses were well above historical second quarter averages as measured by property claim services, or PCS, and driven by numerous smaller events rather than a few headline events. None of these events reached our excess of loss catastrophe reinsurance program, which attaches at $40 million per occurrence.

While quarters like this do happen on occasion, the annual impact of catastrophes on our loss ratio over the past 15 years has averaged 3 points and compares favorably to AM Best estimated industry average of 5.3 points. We attribute this differential to our conservative underwriting and pricing philosophy and strong reinsurance program. Third, we continue to successfully execute on our strategy of consistently generating profitable growth despite challenging market or economic conditions.

Overall, second quarter reported net premiums written growth of 3% was reduced by 3 percentage points due to the aforementioned auto premium credits. Our strong distribution partner relationships continue to present us with excellent opportunities for growth without sacrificing our margin targets. Our field-based employees and underwriting, agency management, claims and safety management were able to seamlessly transition to a virtual environment, while maintaining highly responsive, personalized service and support to our customers and distribution partners.

Finally, with respect to pricing, industry-wide standard commercial lines pricing continues its upward trajectory, driven by an interest rate environment that is expected to be lower for longer, increased volatility in catastrophe and non-catastrophe property losses, a firming reinsurance market and ongoing concerns over increasing loss trends. Our second quarter commercial lines renewal pure pricing was up 3.9%.

Our successful track record of achieving renewal pure price that has matched or exceeded our expected loss trend in each of the past 10 years positions us well with a high-quality and adequately priced in-force book of business. The sophisticated and granular approach to risk selection and pricing is also deployed in the acquisition of new business.

Looking forward, we see opportunities to achieve higher price levels in property, auto and general liability, while workers' compensation is expected to present a continued drag in the upcoming quarters.

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 will review our consolidated results, discuss our segment operating performance and finish with our updated outlook for 2020.

For the quarter, we reported net income per diluted share of $0.57 and $0.40 of non-GAAP operating earnings per share. We generated an annualized ROE of 6.2% and a non-GAAP operating ROE of 4.4%. For the first half of the year, we generated a non-GAAP operating ROE of 6.7%. While our operating ROE is well below our 11% target so far this year, we feel good about the strength of our business, which continues to perform well despite some short-term volatility from COVID-19 catastrophe losses and alternative investments. We believe we are well-positioned to generate strong profitability for the balance of the year.

Consolidated net premiums written growth was 3% in the quarter, and this includes about $19.7 million of COVID-19 related return premium credits for our personal and commercial auto lines of business. These premium credits were accounted for as a reduction and net premiums written were fully earned in the quarter and were offset by a reduction in auto bodily injury and physical damage losses. The premium credits had the impact of reducing our growth rate by 3 percentage points in the quarter.

Strong renewal retention, overall renewal pure price increases averaging 3.9% and steady new business volumes helped drive the solid growth. Year-to-date, our net premiums written are flat with 2019. Our year-to-date net premiums written was significantly impacted by COVID-19 related items, including the first quarter, $75 million audit premium accrual and the $19.7 million on second quarter audit premium credits that collectively reduced the top line by 7 percentage points. As John mentioned, we endorsed $14 million of workers' compensation and general liability premium against the audit accrual during the quarter related to lower exposures, and that brought the accrual down to $61 million at quarter end.

It will be well into the latter part of 2021 until the premium audit to complete, and we know the full extent of the impact of the reduced exposure on our auditable premiums. With GDP estimated to be down around 6% in 2020, we feel good about the audit premium accrual, but we will continue to evaluate it quarterly.

We reported a combined ratio of 98.4% for the second quarter, an excellent result in light of the significant level of catastrophe losses and the ongoing impact of COVID-19. Catastrophe losses totaled $83 million and added 13.2 percentage points to the combined ratio. Favorable net prior year casualty reserve development of $15 million help the combined ratio by 2.4 points.

On an underlying basis, or excluding catastrophes from prior year casualty reserve development, the combined ratio was 87.6%, a significant improvement compared to 91.1% in the prior year period. For the first 6 months of 2020, the underlying combined ratio of 90.4% reflects 170 basis points of margin improvement. Underlying margins have benefited from lower-than-expected non-catastrophe property losses and reduced underlying operating expenses.

Included in the underlying combined ratio of the COVID-19 specific underwriting accruals that reduced pretax underwriting income by $9.6 million in the second quarter and increased the combined ratio by 1.3 percentage points. These specific items include $6.6 million of reduced underwriting income due to the earned impact net of reduced underwriting expenses and losses of our first quarter $75 million audit premium accrual. We also increased our premiums receivable allowance for doubtful accounts by $3 million in the quarter due to the COVID-related billing leniencies. These items reduced our second quarter EPS by $0.13 and our ROE by 1.4 percentage points.

Year-to-date, the specific COVID-19 related pretax underwriting charges totaled $34 million and have increased our combined ratio by 2.4 percentage points. These items have reduced our year-to-date EPS by $0.45 and our ROE by 2.4 percentage points.

Moving to expenses. Our expense ratio was elevated to 34.3% for the quarter. The earned impact of the COVID-19 related premium items reduced our net premiums earned by $50 million in the second quarter. This, coupled with a $3 million increase in our allowance for bad debt, added 2.2 percentage points to the expense ratio. Absent these COVID-19-related items, the expense ratio of 32.1% for the quarter and 32.6% year-to-date was better than expected and reflects expense management initiatives.

Some of these initiatives, however, can be seen as temporary and relates to lower travel and entertainment expenses, some short-term deferrals of projects and new hires and lower employee incentive compensation. In addition, if premium volumes come under pressure from a further economic slowdown, the expense ratio will continue to face some upward pressure due to our operating costs being spread over a smaller premium base. The expense ratio will also face pressure if our customers' finances are further impacted, which could result in us having to increase our allowance for bad debt.

That said, we continue to seek out ways to improve our operational efficiency, leverage our infrastructure and drive our expense ratio down over time while continuing to invest in our business. Corporate expenses, which are principally comprised of holding company costs and long-term stock compensation totaled $6.3 million in the quarter compared with $9.6 million in the year-ago period, driven by lower stock-based compensation expense.

Turning to our segments. In the second quarter, Standard Commercial Lines reported a 5% increase in net premiums written, a solid result in light of the challenging backdrop and reflects the strength of our field-based model and our deep and long-term distribution partner relationships. The growth is inclusive of the $15.4 million impact of the April and May commercial auto premium credits that reduced our Standard Commercial Lines quarterly growth rate by 2 percentage points. New business was flat relative to a year ago, while retention was very strong at 86% for the quarter, and renewal pure price increases was stable at 3.9%. The combined ratio was 96.7%, and the underlying combined ratio was 89.6%.

Catastrophe losses accounted for 10.1 points on the combined ratio. Net favorable prior year casualty reserve development reduced the combined ratio by 3 points and included reserve releases of $15 million in workers' compensation and $10 million in general liability, partially offset by unfavorable prior year reserve development of $10 million in commercial auto. The increase in the commercial auto prior year reserves was driven by higher severities, putting pressure on 2016 to 2019 accident years as well as higher-than-expected frequencies in accident year 2019.

As John mentioned, while the current accident year reported claim frequencies were down during the quarter, except for reducing losses in the commercial auto line related to the premium credit, our 2020 casualty loss ratios for the same commercial lines remain on plan. Due to the long tail nature of these risks and the inherent uncertainty presented by COVID-19 and the volatile economic environment, we do not believe it is appropriate to reflect the temporary reduction in frequencies at this time.

Our Personal Lines segment reported a 5% decline in net premiums written, driven by $4.3 million of personal auto premium credits offered in April and May, which impacted the growth rate by 5 points. Renewal pure price increases averaged 3.1%. Retention remained solid at 84% and new business was up 13%. The segment produced a combined ratio of 108.8%, which included an elevated level of catastrophe losses of 36.2 points. There was no prior accident year casualty reserve development. The underlying combined ratio was 72.6% benefiting from lower non-catastrophe property losses.

Our E&S segment generated 3 percentage points in net premiums written growth. Renewal pure price increases averaged 5.5%, and new business was up 13%. A high level of catastrophe losses this quarter added 11.3 points to the combined ratio and resulted in a 100.9% combined ratio for the quarter. There was no prior accident year casualty reserve development and the underlying combined ratio was a solid 89.6%. Over the past few years, targeted price increases, business mix changes and exiting specific underperforming parts of the business have contributed to the improved combined ratio performance in this segment.

Our Investment portfolio remains conservatively positioned. As of June 30, approximately 91% of our portfolio was invested in core fixed income securities and short-term investments with an average credit rating of AA-, an effective duration of 3.6 years and offering a high degree of liquidity. We increased risk assets modestly during the quarter from 8% to just over 9% of the overall portfolio as we found valuations attractive. We will continue to evaluate further increases to risk assets, depending on market and economic conditions.

After-tax net investment income of $28.5 million was down 40% for the comparative quarter, driven primarily by $16 million of pretax alternative investment losses, which we report on a 1 quarter lag. The alternative investment losses came in at the lower end of the estimated $15 million to $20 million range that we disclosed last quarter. We do, however, expect a rebound in the valuation of these investments, and this is reflected in our updated net investment income guidance, which I will discuss in a minute.

The overall loss to tax yield on the fixed income portfolio, including high-yield was 2.7% for the quarter. The average after-tax new money yield on fixed income purchases during the quarter was also approximately 2.7%, with purchases more heavily weighted than earlier in the quarter when spreads were wider. Total invested assets include an increase in pretax unrealized gains in the fixed income portfolio of $220 million in the quarter, driven principally by a narrowing of credit spreads. The total return on the portfolio was a very strong 4.2% for the quarter and 2.3% year-to-date.

Our capital position remains strong with $2.3 million of GAAP equity, which is up 4% from year-end. Book value per share increased 9.5% in the quarter. Our net premiums written surplus ratio was 1.4x. Cash flow was strong with $197 million of cash flow from operations year-to-date, up 20% from last year and represented 14% of net premiums written. We have $324 million of cash and investments at the holding company.

During the second quarter, we repaid the $50 million that we drew on our line of credit out of an abundance of caution in the first quarter. We currently expect to repay the remaining short-term borrowings by year-end. Overall, our strong balance sheet and holding company cash and liquidity provides us with the resources and financial flexibility to continue to invest in our business and grow our insurance operations.

As we have laid out in our earnings prerelease, we have revised our full year 2020 guidance as follows: a GAAP combined ratio, excluding catastrophe losses of between 90% and 91%. This represents an improvement from our prior guidance of a range of 92% to 93%. This also assumes no additional prior accident year reserve development.

Catastrophe losses of 6 points on the combined ratio, which is a 1.5 point increase from our prior guidance, reflecting higher-than-expected cat losses through the first half of the year. As COVID-19 has not been designated a PCS event, such losses are not included in this ratio. After-tax net investment income of $170 million, a $10 million improvement from our prior guidance of $160 million and includes up to $5 million in after-tax gains from our alternative investments. An overall effective tax rate of 18.5% and weighted average shares of 60.5 million on a diluted basis.

Our 2020 guidance reflects the estimated full year impact of COVID-19 on our underwriting results. Our guidance this year has a high degree of uncertainty than in prior years due to the dynamic and fluid nature of the impact of the COVID-19 pandemic on the U.S. economy, our business and our operations.

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

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

Thanks, Mark. We continue to navigate through this challenging environment in concert with our distribution partners, ensuring we have not sacrificed in any way our high standards for customer experience. While the top line growth outlook may get more difficult depending on the depth and duration of the economic downturn, we will maintain a disciplined approach to underwriting, seeking to obtain risk-adjusted pricing that meets or exceeds our loss trend expectations.

We're extremely pleased with the quality and embedded profitability of our overall in-force book and are well-positioned to continue to generate strong financial results. Our success is built on 3 primary competitive advantages: number one, franchise relationships with best-in-class distribution partners; two, a unique field model enabled by sophisticated tools and technology; and three, the ability to deliver a superior omni-channel customer experience.

These competitive strengths have served us well for decades and have positioned us for continued success over the long term. We also recognize that without a highly engaged, aligned and committed team, our success could not be realized. Our employees remain our greatest competitive advantage. We have a unique culture at Selective, one built on diversity, acceptance and inclusion, key values to driving innovative thought.

Recent events, some violent and tragic, have focused long deserved attention on racial and social injustice. As an industry, we can and must do more to advance racial equality. At Selective, we continue to challenge ourselves to do more to increase diversity at all levels in the company and the ranks of our distribution partners and foster an environment of even greater inclusion. We've always believed that if we deliver for our employees, our customers and our distribution partners, our shareholders will be consistently rewarded.

This focus is highlighted in our inaugural ESG report published earlier this year. It can be found on the Investor Relations page of our website, and I encourage you to read it.

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

QUESTIONS AND ANSWERS

Operator

Our first question comes from Mike Zaremski from Credit Suisse.

Charles W. Lederer - *Crédit Suisse AG, Research Division - Research Analyst*

It's Charlie on for Mike. So forgive me if you guys -- if I missed this in the opening remarks, but in the past, you've kind of given rate and retention metrics for higher quality versus lower quality accounts in standard commercial lines. Would you be able to kind of give us those metrics and maybe some color around trends?

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

Yes. Yes. And we did not include those in our prepared comments, but that was not for any change in the actual results. I can tell you that the variation between best and worst-performing segments on a forward outlook basis remains around 7 points of rate differential. So when you think about it, our highest quality accounts are continuing to retain in the, call it low 90%, on a point of renewal basis, and we're seeing an offsetting reduction in our low and very low expected buckets, call it in the mid-70%s to lower 80% range. So you've got, call it, about a 5% differential in retentions and about a 7% differential in rate.

And remember, that above-average cohort represents about half of our premium. So that continues to drive our mix improvement. So when we talk about profit improvement, you've got 2 factors driving it. Number one is the differential between earned rate and loss trend. And then the second is mix of business change. And we think that's the best way to measure that mix change.

Charles W. Lederer - *Crédit Suisse AG, Research Division - Research Analyst*

Got it. That's helpful. And then on the $15 million in reserve development in the quarter, can you kind of give us a feel of what lines that was in?

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

Yes. So I'll start and Mark can follow on. We had $15 million of favorable prior year coming out of comp, workers' comp, and $10 million coming out of the general liability line. We did have -- have an offset of $10 million of adverse prior year in the commercial auto. I would say that commercial auto adjustment is spread out, as Mark put in -- had in his prepared comments over the 4 prior accident years of '16 through '19. So small adjustments each of those prior years. In the '16, '17, '18 periods, the primary driver there was a little bit of movement in severity. And in the '19 year, it was a small combination of a little bit of frequency and a little bit of severity.

Charles W. Lederer - *Crédit Suisse AG, Research Division - Research Analyst*

Okay. That's helpful. And one more, if I can. You detailed a lot of the moving parts in the core loss ratio in your opening remarks. I'm just wondering if you can maybe just pull it apart again and to give us a sense of what may be recurring versus more a onetime benefiting from less activity in the quarter.

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

I think -- and Mark can give you the specific pieces, I think clearly the biggest driver in the improvement from an underlying combined ratio basis when you strip out all the moving parts, is the benefit to non-cat property being lower than expected and lower than prior year. And that -- I would say that makes up the majority of it. In terms of how that looks going forward, as we've said, you do have some volatility in both catastrophe and non-catastrophe losses in normal times. But as long as the economic environment remains under some strain, you could very well see some of that favorable volatility persist.

But I think -- and it's no different than we talked about on the casualty line side, your severity on those losses, whether individual losses or catastrophe losses, could bounce around from period to period. But that's the primary driver.

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

Yes. That's exactly right. And Charlie, the only thing I'd add is that obviously it's been an unusual year with a lot of moving parts between catastrophe losses, a reduced level of economic activity and its impact, non-catastrophe property losses and expenses. And then obviously, the COVID-19 specific accruals. When you kind of parse through all of that and all of the moving parts, I'll kind of take you back to the beginning of the year as we laid out our combined ratio forecast, which was essentially 140 basis points of margin improvement from last year and expectation of a 91.5% for the full year on an ex-cat basis accident year.

If you look at where we are year-to-date, we're at 90.4% on an accident year ex-cat basis. Our guidance that we put forward for the full year at 90% to 91%, that's on an ex-cat basis. If you adjust for the reserve development that we've recorded on a year-to-date basis, kind of annualize that, that puts the underlying combined ratio expectation at a 91% to 92% for the full year. So kind of split the difference. It sort of gets you back to where we were at the beginning of the year, the guidance of 91.5%.

Now embedded in that are quite a few moving parts. You have the earned impact of the audit premium accrual. You have all the bad debt that we recorded. And as John mentioned, the $10 million of COVID-19-related specific IBNR for the potential for some specific coverages for BI within property. But then you also have some offsets, as John mentioned, related to non-cat property losses and a reduced level of underlying expenses. But I would kind of take you back to kind of the 91.5% expectation for the full year when you kind of parse through all the moving parts in the quarter.

Operator

Our next question comes from Matt Carletti from JMP Securities.

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

Just a few questions. I was hoping to start off maybe just on the top line on premiums. I was hoping you could help us get a feel for just how things progressed across the quarter because clearly, conditions economically and the lockdown and stuff changed from April to May to June. So whether that's premium growth levels or submission flow or just any way you can help us kind of get a little bit of a picture of the progression as it went across the quarter. And of course, I know it's just the last day of July. But if you have any insight into how July looked, that would be helpful, too.

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

Yes. This is John. So -- and I'm going to focus my comments on our predominant segment, which is Standard Commercial Lines, call it 80% of our premium. I would say you definitely saw over the course of the quarter progressive improvement from our top line perspective. And you saw the overall number of 3%, which actually is 6% if you strip out the impact of those audit premium. For Commercial Lines, it was about 2 points on that 5% growth for commercial. So actually a pretty solid -- more than solid overall growth rate for Standard Commercial Lines.

And got slightly better as the quarter went on. I don't know that it was that dramatic. I think our performance has been pretty consistent. And I will tell you, July, we still have 2 booking days left, today and tomorrow for premiums to be booked. I would expect July Commercial Lines premium to be in excess of what you saw for the second quarter. And I think that's a combination of pricing and retention holding strong, but also very solid new business performance. And I think this is an important point, and I know companies talk about their competitive advantages and their great relationships and their sophisticated tools.

We continue to thrive in this environment. And the ability to produce a 3% growth rate, even if you include those premium credits in a quarter where you all see what's happening to GDP in the quarter, I think speaks volumes about our positioning in the marketplace and the fact that our distribution partnerships want to continue to grow with us. And they continue to provide us with opportunities. We continue to use the tools we have, including a tool we recently rolled out a couple of quarters ago. That allows us to work with an agency to evaluate their entire portfolio relative to our underwriting appetite and identify accounts that we think would have a better home with Selective, and I think that's feeding a fair amount of our growth opportunity.

So overall, I think we feel good about our ability to grow the Commercial Lines business despite what's going to continue to be some economic headwinds as we move through the year.

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

Yes. I think -- I was just going to add just one observation to that, and John is exactly right, the performance has been exceptional and the growth rate has continued through July. The one caveat I think we'd be remiss not to mention is we did lift the billing hold in early July. And depending on whether our customers come in line with their premium payments, it could be a little bit of an offset in terms of some cancellations coming through in to August and September. But that's a little bit of a wild card. At this point, we don't expect that to be meaningful, but there is some potential for some pressure on the top line related to some cancellations due to the leniencies we had in place.

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

Okay. Perfect. Makes sense. Then the other question I want to ask you is, there's been in the press in the past week, kind of just, I guess, a task committee, the New Jersey COVID presumption bill for workers' comp. And I know it's a rebuttable form. Just your thoughts on it and kind of in relation to kind of your book of business and your workers' comp exposures and what you make of it?

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

Yes. So this is John again. I think we talked about this a little bit in the -- on the first quarter call. I think as long as the presumption laws for regulations remain appropriately focused on essential employees who are required to interact with the public in the course of their employment, they're very manageable. And I think what you're seeing with what the New Jersey law proposed, I think is actually scheduled for the assembly floor today, assembly or Senate floor today. I would say that bill as currently constructed is reasonable.

But I'll also say that we're far enough into this pandemic to have a good sense in terms of reported claim activity for workers' comp. And that includes those that would be covered and those that would not be covered. And these presumption bills, when you think about the claims adjudication process for workers' comp, you would be hard pressed to deny one of those claims, whether there's a presumption law in place or not for an employee who was required to come to their job because they were deemed essential in an essential business and could reasonably prove that they contracted the virus in the course of their employment. But I will tell you that what we've seen to this point, and it doesn't mean that things couldn't change and frequencies couldn't go higher as we move through the balance of the year, but to this point, there's nothing in actual reported frequencies to suggest that with or without a presumption law in any given state, the activity for working-age population is going to result in that much frequency of severity.

Now I think there are clearly segments of the employee population and specifically first responders and medical professionals who work in hospitals and are routinely exposed to COVID-positive patients, and I think that's an entirely different story. That's not really what our workers' comp book is made up of. So I can't speak to the experience on that front.

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

Great. And then one last just numbers question. I apologize if I missed it, but the cat losses in the Commercial Lines segment, do you have the split between the kind of 3 different lines that at least historically catch cats, the property, the auto and the BOP?

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

Yes. Just give us...

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

Yes, we did the -- that breakout.

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

Yes. You want within Commercial Lines?

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

Within Commercial Lines.

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

Yes, within Commercial, yes.

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

Yes. For the quarter, the impact. Yes. So 37 points on the Commercial Property line. Commercial auto was just under a point at 80 basis points and BOP was 52.1 points on the combined ratio in the quarter.

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

Right. For a total of 10.1 points for commercial in total.

Operator

Next question comes from Paul Newsome from Piper Sandler.

Jon Paul Newsome - *Sandler O'Neill + Partners, L.P., Research Division - Former MD of Equity Research & Senior Insurance Analyst*

I was hoping you could talk a little bit more about the -- a little bit more broadly about the competitive environment at the moment, particularly amongst your regionals, you saw a heck of a lot of growth at Cincinnati Financial. It doesn't seem like we're seeing some of the pullback from a competitive environment amongst similar companies that we were seeing elsewhere. Maybe that's wrong, just your thoughts on whether or not that's really -- you've seen an uptick or downtick in competition given the crazy environment?

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

Yes. Paul, this is really hard to evaluate because I think the information flow with the pandemic ongoing is a little bit more challenged, and it's also hard to really unpack some of the drivers of different companies' performance between new business and stronger retentions. We pick our spots, and we always have picked our spots, and our agents are providing us with opportunities, as I've said, and we're -- our hit ratios, actually, if you want to think about hit ratios as a proxy for the competitive environment, our hit ratios have actually been fairly stable across small, middle and large accounts, which I think would suggest that there hasn't been a radical shift in the competitive environment.

But I qualify that by saying that I do think some companies have struggled to maintain the level of interaction with their distribution partners because of the disruption in their operation. And I think -- and I can't speak for other companies, whether regional or national, but our operating model has underwriters that are specifically assigned to agents as opposed to broken out by class of business. What that does is it gives you a great line of communication to the individual producers on an account. So our ability to feed off of those relationships and maintain them with outbound calls to request opportunities is different from companies who might have more of a centralized underwriting approach where there's not an established relationship between the account producer and the individual making that underwriting decision. So for companies that are structured like us, and there might be 1 or 2 others that you would put in that category, are probably having an easier time identifying opportunities and creating submission flow.

Jon Paul Newsome - *Sandler O'Neill + Partners, L.P., Research Division - Former MD of Equity Research & Senior Insurance Analyst*

And actually a little bit relatedly. Again, could you broadly talk about what you think a little bit more about the claim cost inflation underneath. You've had some contradictory comments I think maybe a good way to put it for various companies about whether or not we're seeing an uptick in the underlying inflation of the -- underlying inflation for the business. Obviously, it's not easy to tell with all the other things going on at the same time. But do you have any further thoughts on that?

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

Yes. I don't know that I would consider our commentary to be contradictory of what you're hearing. I think what we often point to is that we have always had a disciplined approach in making our casualty loss picks, and always embedded an expectation for future loss trend. So while actual frequency and severity trends over the last several years will influence a loss ratio pick for a casualty line, we would always add in an expectation for future loss trend. And over the last couple of years, that expectation has gone up, and we've been fairly transparent about this. It would have been in the 3% range typically a few years back.

And over the last couple of years, we've inched that up to just under 4% for Commercial Lines. And I think to your point, you've got a couple of quarters now where it's hard to make any determinations as to whether or not that trend has been modified in any way. But I think for us and our ability over 10 years, when you look at the track record and lay our rate and retention over the top of that loss trend, we've been meeting or exceeding that number on a consistent basis for 10 years.

So turning that dial up a little bit, which I think in our pricing outlook discussion, we do think there is a need and an opportunity to dial up price a little bit going forward, and it's driven by a number of factors. While one of them might be a movement from a loss trend perspective, you also have this cat and non-cat loss volatility. But most importantly, you've got this lower for longer investment environment that for all companies, and we certainly embed this into our approach will lower your effective target combined ratio because you can fully expect that through the balance of this year and into '21, at a minimum, you're going to generate less ROE from your investment portfolio unless you're willing to dial up the risk profile, which is not how we do business.

So you're going to need to lower your combined ratio target, which will lower your -- raise your pricing indications and that's how we'll work that through. So long way of saying, I think we recognized some increase in loss trend, but also with our portfolio of smaller to mid-sized accounts of a generally lower limits profile, we don't see the sort of headline loss trend movements that some other companies may be pointing to.

Jon Paul Newsome - *Sandler O'Neill + Partners, L.P., Research Division - Former MD of Equity Research & Senior Insurance Analyst*

But my apologies, I didn't mean to say you were contradicting the industry. I just think we've seen a lot of different views from everybody this quarter.

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

Yes. No offense taken.

Operator

Next question comes from Sean Reitenbach from KBW.

Sean Keller Reitenbach - *Keefe, Bruyette, & Woods, Inc., Research Division - Associate*

Can you guys walk us through what you saw with workers' comp claim counts through the quarter and as it got towards the end? And then also maybe just a word -- some words on pricing as we've heard some talk about pricing potentially being -- nearing a bottom?

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

Yes. So I'll start. And we don't get into a lot of details or specifics around individual line claim counts in the quarter. But suffice it to say that based on my prior comments relative to the workers' comp presumption discussion, we have not seen a significant level of COVID-related workers' comp claims reported. But I think clearly, we have seen a drop-off in non-COVID claims reported over the course of the quarter. I will say you have started to see it return to a little bit more of a normal run rate, but still below what we've historically seen.

And as Mark and I both indicated in our prepared comments, we haven't reacted to that frequency for our casualty lines. I think it's not prudent to do so because of the severity driver on the casualty loss picks and the need to allow those to age a little bit more before reacting to that. So that would be the point relative to claim counts.

In terms of pricing, and I've seen the commentary relative to workers' comp bottoming, the price reaching a bottom. I'm not going to disagree. I think that's probably accurate, but you want to put that in the proper context, which is it's bottoming at a significant negative rate level and will likely continue to be negative. It might be less negative as we move into '21, but it's still going to be a negative influence on the forward loss ratios for that line of business. I do think what you might start to see is, and we've commented on this in the past, in addition to the bureau filed rate changes, which have continued to be negative, I think we've seen some aggressive pricing activity in the market on top of that.

That might start to change, which will make pricing look a little bit better. But our expectation is you're going to continue to see negative filed rate changes, albeit slightly lower, less negative than they had been to this point.

Sean Keller Reitenbach - *Keefe, Bruyette, & Woods, Inc., Research Division - Associate*

That's helpful. Secondly, can you guys -- what kind of feedback have you guys gotten on the personal auto rebates? And how are you thinking about personal line exposures to some of the bigger auto insurers potentially enacting rate decreases?

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

Yes. We did provide the premium credits for the months of April and May. And at this point, have not extended that. And I will tell you what we've seen is the actual reported claim activity as the quarter went on has bounced back a fair amount. Still a little bit below where it's historically been, but not meaningfully below. With regard to the actions of the bigger auto writers, it's just not an area we compete in. We are generally writing companion accounts that package up the auto and home, and we're generally competing for more of what we would describe as a consultative buyer, who's going to focus a little bit less on price and a little bit more on making sure they're buying the right product with the right coverages to protect their -- not just their auto, but their home as well.

So I won't say that that change in competitive environment amongst the bigger players won't put pressure on auto hit ratios. But it's -- listen, it's a small segment of business for us. You've seen us struggle to generate consistent top line growth in auto, in part because of that competitive pricing environment and the pressure that puts on our hit ratios. And we think that will probably continue with some of the actions that we've seen from some of the bigger players. Operator, we have any more questions on the line?

Operator

Yes, sir, we have a question from Bob Farnam from Boenning.

Robert Edward Farnam - *Boenning and Scattergood, Inc., Research Division - MD and Senior Analyst for Property & Casualty Insurance*

Actually 2 smaller pieces here. I wanted to talk about the Excess and Surplus Lines market. You've had a lot of companies saying they're pretty excited about the prospects in that line, in that business, rates going up, submissions going up. So I just kind of want to get a feel for what you guys are seeing in that line and what we should expect going forward?

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

Yes. We saw a solid growth quarter out of the E&S, not extraordinary obviously, but in light of the economic circumstances, pretty solid growth and pretty solid improvement from a pricing perspective. I think it's important to recognize that what we write in E&S tends to be the smaller -- it's a $3,000 average policy size, predominantly in the binding authority space. Kind of lower end from a severity perspective and complexities perspective in the E&S market. So I think some of what you might see in terms of the headline growth in E&S tends to be focused on cat exposed or coastal property and some of the higher casualty and certainly, excess is one of the areas that's running pretty hard from a market firming perspective.

I would say the one area that we have seen some migration from the admitted to the non-admitted market would be habitational. And that's a segment that typically does bounce back and forth between admitted and non-admitted at times like this, and that is presenting some opportunities for us. But that's also a bit of a challenged segment from a pricing perspective and it's an area in need of rate level.

Robert Edward Farnam - *Boenning and Scattergood, Inc., Research Division - MD and Senior Analyst for Property & Casualty Insurance*

Got it. Okay. And one other smaller point. Apologies to Mark, maybe I missed it, but other income went up in the quarter more than I expected it to. What was driving that? Is that one time? Or should we expect some strength there going forward?

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

Yes. The other income line, there's a couple of different items in there, but we net that off against other expenses within the expense ratio when you look at the combined ratio, there's nothing in particular that stands out in terms of kind of ongoing run rate in other income.

Operator

Our next question comes from Charlie Lederer of Credit Suisse.

Charles W. Lederer - *Crédit Suisse AG, Research Division - Research Analyst*

Just one more. On the Commercial Standard Lines pricing, just wondering if there's anything to kind of glean from the decelerating quarter-over-quarter, just looking at the supplement.

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

Yes. And I would -- I don't think you can call it decelerated. I mean it was 4% and 3.9%, the 2 slight movements by line -- when I say slight, we're talking 10 or 20 basis points would be workers' comp down a little bit. That could be mix of business generated. And then property was probably down about a similar amount to 4.5% in the quarter versus 4.7% on a year-to-date basis. I would characterize this as stable pricing over the last few quarters. But we do think there's an opportunity in property.

Certainly, you might see some improvement, albeit still negative in comp and the GL line continuing to move further north. And then -- auto, excuse me, we would expect to continue to be at the kind of run rate we've seen. So I think we feel good about the pricing environment, but you did see a stable quarter in our results. And I want to also highlight, and I know I said this a couple of times in the prepared commentary, we've got a really high-quality and adequately priced in-force book of business driving our results in Commercial Lines.

So to a certain extent, your underwriters are going to make sure they're focusing on protecting that renewal book. And I think you might have seen some of that in the quarter with all of the struggles in the economy, there was certainly a desire to protect that renewal inventory.

Operator

Speakers, we don't have any more questions on queue. I'll turn the call back to John for closing remarks.

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

Well, thank you all for your participation today. We appreciate the engagement, the questions. And feel free to reach out to Rohan or Mark with any follow-ups. Thank you all.

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

Thank you.

Operator

And that concludes today's conference. Thank you all for joining. You may now disconnect.
