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Selective Insurance Group, Inc. (SIGI)

Q3 2019 Earnings Call

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Gregory Edward Murphy

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone. Welcome to Selective Insurance Group's Third Quarter 2019 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. You may now begin.

Rohan Pai

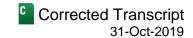
Senior Vice President, Investor Relations & Treasurer, Selective Insurance Group, Inc.

Good morning, everyone, and welcome. This call is being simulcast on our website and the replay will be available through December 2, 2019. A supplemental investor package, which includes GAAP reconciliations of non-GAAP financial measures referred to on this call is available on the Investors' page of our website, www.selective.com.

Certain GAAP financial measures will be stated in the call that also are included in our previously filed Annual Report on Form 10-K and quarterly form 10-Q reports. To analyze trends in our operations, we use non-GAAP operating income, which is net income excluding the after-tax impact of net realized gains or losses on investments; unrealized gains or losses on equity securities; and debt retirement costs related to an early redemption of our debt securities in the first quarter.

We believe that providing this non-GAAP measure makes it easier for investors to evaluate our insurance business. As a reminder, some of the statements and projections made during this call are forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not

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guarantees of future performance and are subject to risks and uncertainties. We refer you to Selective's Annual Report on Form 10-K and any subsequent Form 10-Qs filed with the U.S. Securities and Exchange Commission for a detailed discussion of these risks and uncertainties. Please note that Selective undertakes no obligation to update or revise any forward-looking statements.

Joining today on the call are the following members of Selective's Executive Management Team: Greg Murphy, Chief Executive Officer; John Marchioni, President and Chief Operating Officer; and Mark Wilcox, Chief Financial Officer.

With that, I'll open it to Greg.

Gregory Edward Murphy

Chairman & Chief Executive Officer, Selective Insurance Group, Inc.

Thank you, Rohan, and good morning. After 20 years as Chief Executive Officer at the best super regional company in the country, I'm extremely pleased to announce a well-developed transition plan that appoints John Marchioni as Chief Executive Officer effective February 1, 2020 when I become the Executive Chair for a one-year period. John has been President and Chief Operating Officer since 2013 and is fully prepared and capable to assume the Chief Executive Officer role. I could not be more happy for him and the ongoing success of the company.

I'll make some introductory remarks and then focus on some high level themes and initiatives that enhance our strategy and position us for continued outperformance. Mark will then discuss our financial results, and John will review our insurance operations in more detail providing additional color on key underwriting and strategic initiatives.

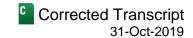
Our third quarter results were solid, reflecting continued strong execution across our underwriting and investment functions. For the quarter, our combined ratio was 95.2% and after-tax net investment income was up 6% to \$45 million. We generated non-GAAP fully diluted operating earnings per share of \$0.97 and an annualized operating ROE of 11.2%.

Our third quarter results were impacted by, one, higher than expected levels of non-cat property losses of \$5 million after-tax or \$0.09 per diluted share, and \$3 million of employee severance related costs which were split between underwriting and corporate expenses and accounted for \$0.05 per share. On a year-to-date basis, our non-cat property losses are within our expected range. In addition, we remain focused on generating renewal pure price increases that for the quarter were 3.7%, in-line with our expected claim trend, as well as driving ongoing underwriting and claim improvements. We expect new and renewal pricing will continue their upward momentum that will produce additional underwriting margin improvement in 2020.

For the nine months, steadfast underwriting performance coupled with outstanding investment results generated top-performing annualized non-GAAP operating return on equity of 12.3%, which was above our full year target of 12% The 12.3% operating return on equity was reduced by about 60 basis points due to the significant unrealized gains on the fixed income portfolio that increased the book value by almost \$3 per share or 10%. These gains reflect a low interest rate environment and will reverse as securities near maturity.

Overall, net premiums written were up 6%, led by one, solid overall renewal pure price increase of 3.6%, two, strong retention and three, new business that was up 5% for the first nine months. Our combined ratio of 94.3% for the first nine months was excellent with each of our segments contributing to the solid results.

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From a strategic standpoint, we're focused on our initiatives to generate profitable growth through increasing share of wallet within our "Ivy League" distribution partners, appointing new partners, as well as growing in our five recently opened states. For the first nine months of the year, our insurance operations generated an annualized operating return on equity of 5.9 points.

Our investment results for the nine months were brilliant despite lower interest rate environment, reflecting some repositioning in the portfolio coupled with strong cash flows and percentage of net premiums written that were 22% for the quarter and 15% year-to-date. After-tax net investment income increased 15% for the nine months and generated 9.1 points of annualized operating return on equity. On a cash basis, our combined ratio was a healthy 88%.

As we head into the closing months of 2019, there are a few topics that I would like to comment on. The first is, as I've always stated, arithmetic has no mercy; and between lower interest rates and the growing expected industry wide claim trends, the overall direction of the pricing environments for Standard Commercial Lines must increase and it is moving higher. Still underperforming Commercial Auto and Property lines of business require more underwriting and pricing attention in order to reach targeted profit levels. In addition, we've been very careful in writing and pricing Workers Compensation business, which I believe will become an industry hotspot by 2021.

Finally, Conning's industry forecasts of a 96.7% combined ratio for 2019 suggest an operating return on equity of about 7.5%, which is just in line with the industry's cost of capital. For Selective, Commercial Lines renewal pure pricing was up 3.5% in the quarter and 3.3% for the first nine months of the year that continued our 10-year track record of achieving renewal pure price at or above expected loss trend levels.

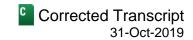
We are achieving price adequacy, and our underwriting margins remain in line with our targets. We will continue to achieve price increases in areas where we're not being adequately compensated, but our strategy in this environment is to grow where we see attractive opportunities.

We see some signs of loss trend increasing in the marketplace. We feel our reserve position is strong for two reasons; one, prior accident year losses developing favourably, and two, observed current accident year reported casualty claim counts are below expected levels. The reported claim count is the leading indicator of pure premium. We maintain a highly disciplined planning process that includes on-leveling and trending the past four accident years and averaging those four years with our current year to project the baseline loss ratios by line of business. Those loss ratios are then trended based upon future expectations to create forecast and loss ratios. In addition, our detailed quarterly reserving process includes the monitoring of claim count severity and trends that allow us to react quickly to emerging trends.

Second, while there were no headline-generating catastrophe losses during the quarter, it was still active from a standpoint of near misses as well as numerous severe convective storms that impacted for the most part the Midwest. The industry exposure to significant hurricanes, earthquakes and wildfires is pronounced, and how loss mitigation is implemented is critical to reducing the magnitude of these types of events. For Selective, our CAT losses are in line with our expectation for the year.

Third, as the industry assimilates the prolonged interest rate environment, there will be downward pressure on industry wide portfolio returns that then will necessitate better underwriting margins to make up any investment – excuse me, shortfalls. For companies that are still struggling with underwriting profitability issues, lower investment returns will result in a renewed sense of urgency to improve underwriting margins through higher pricing. Our agile approach to pricing, underwriting risk segmentation and claims improvements positions us well for the current environment.

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With the Commercial Lines conditions turning into more of a tailwind, as well as our sophisticating pricing, we are very confident in our ability to maintain attractive ROEs. With the nine months of the year behind us, our full year 2019 expectations are as follows:

- Our GAAP combined ratio, excluding catastrophe losses of 91% this excludes any fourth quarter prior year development;
- Catastrophe losses of 3.5 points;
- After-tax net investment income of \$180 million which includes \$14 million of after-tax investment income from our alternative investments;
- An overall tax effective tax rate of approximately 19%, which includes an effective tax rate of 18.5% for investment income, reflecting the tax rate of 5.25% on tax-advantaged municipal products and a tax rate of 21% for all other items;
- And weighted average shares of \$60 million on a diluted basis.

Based on our excellent operating performance and 2020 outlook, the board declared a 15% increase in the quarterly cash dividend on common stock to \$0.23 per share.

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

Mark Alexander Wilcox

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

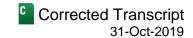
Thank you, Greg and good morning. For the quarter, we reported \$0.93 of fully diluted earnings per share and \$0.97 of non-GAAP operating earnings per share. We generated an annualized ROE of 10.7% and a non-GAAP operating ROE of 11.2%. Through the first nine months, our annualized non-GAAP operating ROE of 12.3% is above our 2019 ROE target of 12% Consolidated net premiums written increased 4% in the quarter with continued solid 6% growth in our Standard Commercial Lines segment driven by strong, new business growth and accelerating pure renewal rate increases, partially offset by premium declines in Personal Lines and E&S. Underwriting profitability remained strong with a third quarter combined ratio of 95.2%.

On an underlying basis or excluding catastrophe losses and prior-year casualty reserve development, our combined ratio was 93.6% with a 1.6 percentage point comparative quarter increase, principally driven by higher non-cat property losses and an increase in the expense ratio, which I'll touch on shortly. For the first nine months of the year, consolidated net premiums written increased 6% with strong contributions from our standard Commercial Lines and E&S segments. Our reported combined ratio was a profitable 94.3% and our underlying combined ratio was 92.5%, which reflects 60 basis points of underlying margin improvement thus far in 2019.

For the quarter, catastrophe losses added 3.7 points to the combined ratio and included exposures to a series of smaller hailstorms and tornadoes, as well as a \$3.7 million estimate for Hurricane Dorian. Non-cat property losses of 16.7 percentage points were about a point higher than expected and put some pressure on our actual and underlying combined ratios compared to the comparative quarter. Year-to-date, our non-cat property losses accounted for 16.1 points on the combined ratio and are down by just over a point from the same period in 2018 and are generally in line with our expectations.

In the third quarter, we experienced \$14 million of net favorable prior-year casualty reserve development driven by \$13 million in the Workers Compensation line and \$3 million in the General Liability line and offset in part by \$2 million of adverse development for personal auto. The impact of net favorable prior-year casualty reserve development was 2.1 points for the combined ratio for the quarter and first nine months.

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Given the industry discussion on reserves and loss trends this quarter, I wanted to provide a quick reminder of our reserving processes. Our actuarial reserving team completes a ground-up reserve review for all of our major lines of business quarterly. In addition to performing aggregate loss ratio projections on the multiple actuarial methods, we establish specific expectations of frequency and severity by line of business, which provides us with a deeper insight into emerging trends, enabling us to respond quickly to elevated loss trends and assumptions that are not in line with expectations.

Our reserving processes include an independent mid-year and year-end reserve review, completed by an independent big four accounting firm which provides a second level of review, as well as additional industry insight into the adequacy of our reserves. Finally, just as a reminder, we purchased a significant amount of reinsurance, including large casualty and property XOL programs where we cede individual losses in excess of \$2 million.

Moving to expenses, our expense ratio came in at 34.1% for the quarter, which is up 160 basis points from the comparative quarter. The increase was principally driven by 60 basis points of higher profit-based compensation for our distribution partners and employees, driven by our strong year-to-date results, as well as the employee-severance-related costs that Greg mentioned, which negatively impacted our expense ratio by 30 basis points in the quarter.

Our 33.6% expense ratio for the first nine months was 60 basis points above the prior-year period, a profit-based compensation for distribution partners and employees throughout the majority of this increase due to the better-than-expected combined ratio. If the favorable underwriting trends continue through year-end, there will still likely be continued upward pressure on expense ratio.

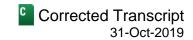
Corporate expenses, which are principally comprised of holding company costs and long-term stock compensation totaled \$6.4 million compared with \$7.5 million in the comparable quarter. For the first nine months, corporate expenses totaled \$28 million compared with \$22 million in the year-ago period. The year-to-date increase was driven mainly by the 23% appreciation in our share price in the first nine months of 2019 versus 8% appreciation in the year-ago period, which increased stock compensation expense related to the liability portion of our awards.

Turning to investment, for the quarter, after-tax net investment income of \$45 million was up 6% from the prior year. The overall after-tax yield on the fixed income portfolio, including high yield, was 2.8% during the quarter, which is flat compared with a year ago. The average new money yield on the fixed income portfolio during the quarter was 2.5% after tax. Approximately 12% of the fixed income portfolio is invested in floating rate securities, which reset principally based on 90-day LIBOR, but we still find the all-in yield of these floating rate securities attractive compared to those of similarly rated fixed rate securities. As interest rate have declined, we've been tactically managing allocations from a peak of around 18% of the portfolio.

Our average fixed income credit rating remains strong at AA- and the effective duration of the fixed income and the short-term investments portfolio is down modestly to 3.3 years. On a sequential basis, the pre-tax book yields on our core fixed income portfolio decreased 11 basis points in the third quarter is down 9 basis points for the year. On a go forward basis, we expect continued pressure on the book yield, given the significant reduction in rates since peaking early in the fourth quarter of last year.

Risk assets, which principally include high-yield fixed-income securities, public equities and our alternative investments portfolio accounted for 7% of total invested assets as of the end of the third quarter, which is down modestly from year-end, mainly reflected in reduced allocation to common stocks.

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Our alternative investment portfolio, which includes limited partnerships in private equity, private credit, and real asset investments and reports on a one-quarter lag generated a strong pre-tax gain of \$5 million for the quarter, compared with \$7 million in the year-ago period.

Turning to capital, our balance sheet remained strong with \$2.1 billion of GAAP equity, an increase of 19% so far this year. Strong appreciation in the value of our fixed income portfolio resulted in net unrealized after-tax gains totaling \$175 million on a year-to-date basis. The strong growth in GAAP equity will put some downward pressure on our ROE as we look ahead to 2020.

We continue to operate at the low-end of our premiums to surplus target range of 1.4x to 1.6x. This flexibility in the operating level when combined with our \$267 million of holding company liquidities provides us with meaningful capacity to grow as market opportunities present themselves. At a 1.4x operating leverage, each combined ratio point equates to about 1 point of ROE, which is about twice that of the industry. In addition, our 3.1xinvestment leverage means that each point of pre-tax book yield on our investment portfolio results in approximately 2.5 points of ROE.

With that, I'll turn the call over to John to discuss our insurance operations.

John J. Marchioni

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

Thanks, Mark, and good morning. I want to start by thanking Greg and the board for the opportunity to become the next CEO of this very special company. As has been the case throughout his tenure, Greg's primary focus has been to do what's in the best interest of our employees, our customers, and our shareholders. And his approach to this transition has been no different. And for that I'm truly grateful.

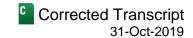
I'll begin with the nine-month results of our operations by segment and then provide an overview of some of our strategic initiatives. Our Standard Commercial Lines segment, which represents approximately 80% of premiums, generated net premiums written growth of 7% for the first nine months, continuing a consistent track record of strong and profitable growth. The segment generated new business growth of 9%, stable retention of 83%, renewal pure price increases of 3.3%, and an excellent combined ratio of 93.9%, or 93.3% on an underlying basis.

Commercial Lines renewal pure prices increased 3.5% in the third quarter, up sequentially from 3.1% in the second quarter as General Liability and Commercial Auto contributed to the improvement. While the direction of market pricing is certainly a positive, the level of increases has been so far more muted in the small and midmarket Commercial Lines space than it has been for large accounts or high hazard E&S.

At our highest quality Standard Commercial Lines accounts, which represented 49% of our Commercial Lines premiums, we achieved renewal pure rate of 1.9% and point of renewal retention of 91%. On our lower quality accounts, which represent 11% of premium, we achieved renewal pure rate of 7.9% while retaining 79% at point of renewal. Our ability to analyze the risk and return characteristics of each piece of business at an extremely granular level allows us to achieve an additional cost ratio improvement from mix of business changes while maximizing overall retention.

Drilling down into the results for the first nine months by commercial line of business, our largest line, General Liability, achieved an 87.4% combined ratio which included favorable reserve development totaling \$10 million or 2 points on a combined ratio. We achieved renewal pure price increases of 2.7% for this line, including umbrella.

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While loss trends have remained generally benign in our portfolio of predominantly small and midsized accounts, we are monitoring frequency and severity trends, including litigation rates. Early communication with claimants remains a key area of focus across our claims organization.

Our Workers Comp line generated an 81.7% combined ratio, aided by favorable reserve development totaling \$33 million and accounting for 14.2 points on a combined ratio. This favorable development related primarily to lower than expected severities for accident years 2017 and prior. Renewal pure pricing was down 2.8% and we continue to take a cautious approach to underwriting this line, which on a current accident year basis is generating a combined ratio closer to 96%. Workers Compensation pricing for the industry has come under sustained pressure and loss cost filings by NCCI and other individual state bureaus continue to be negative.

Commercial Auto has been an area of focus for us and the industry, as results have been significantly worse than target levels for a number of years. The combined ratio for this line was 107.1% and there was no prior year development. And liability claim trends remain in line with expectations for the current year. To improve profitability, we achieved price increases averaging 7.4% this year on top of similar price increases in each of the past two years. We've been actively managing new and renewal portfolios in target business segments and improving rating and classification. As adoption of our Selective Drive product increases over time, our customers will gain greater insight into the driving habits of their employees and have the potential to improve loss experience.

Our Commercial Property book generated a 98.9% combined ratio. While results have been profitable, they have not met target levels, driven by adverse weather and large fire losses. While market pricing has improved, frequency and severity trends remain elevated and support the need for additional pricing. Our renewal pure price increases average 4%, excluding Inland Marine and we are taking steps to address the drivers of higher loss experience through business mix shifts and safety management efforts.

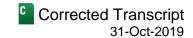
Our Personal Lines segment, which represented 11% of nine-month premiums reported a 1% decline in net premiums written, mostly reflecting the more competitive market conditions, especially for Personal Auto. Renewal pure price increases averaged 5.3%. Retention remained solid at 83%, but new business was down 24%.

Market competition in Personal Lines and for Personal Auto in particular has become far more pronounced this year. The segment produced a combined ratio of 96.9% or 88.2% on an underlying basis. In Personal Auto, net premiums written declined 1% for the first nine months, and the combined ratio was 103%. Results included \$2 million of strengthening for prior accident year casualty reserves, which added 1.5 points to the combined ratio. Renewal pure price increases averaged 9.3% for Personal Auto Liability and 4.5% for physical damage. While a benefit to improve profitability, these price increases are currently putting pressure on new business. The homeowners line reported a 2% premium decline relative to a year-ago and a combined ratio of 99.5%, including 17.7 points of catastrophe losses.

As the majority of our premium is written on an account basis, our competitive position in the Auto line has hurt our homeowners' growth. Despite some expected volatility in quarterly results, this line has tended to be profitable in recent years and renewal pure price increases averaged 2.9% for the first nine months.

Our E&S segment, which represented 9% of total premiums generated 7% net premiums written growth for the nine months, primarily reflecting the onboarding of new distribution relationships. The premium decline in the third quarter related primarily to unfavorable comparisons following the addition of a single large distribution relationship in the year-ago period. The segment generated a 94.7% combined ratio for the nine months, a

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meaningful improvement relative to the 103% combined ratio a year ago. Renewal pure price increases averaged 4.4%. Over the past two years, we undertook a number of deliberate steps to achieve price adequacy, improve the business mix and centralize our claims handling processes, which are contributing to the improved combined ratio performance in this segment. We are pleased with the performance of this business and expect to generate consistent profitability going forward.

We will continue to see pressure on growth in the fourth quarter, as our decision to exit a snow removal program that was heavily weighted to the end of the year will impact year-over-year comparisons. However, with our profitability levels improved, we are well-positioned to generate stronger growth in our core binding authority segment.

I'll switch now to some of our strategic initiatives, which continue to drive our best-in-class operating and financial performance. Some of the major initiatives we've been highlighting have included; one, managing new and renewal pricing in alignment with expected loss trend enabling us to respond quickly to any changes in market conditions. Two, continuing to execute on our strategy of profitable growth in our current markets and through geographic expansion. Three, leveraging sophisticated tools and technology that enable better underwriting, pricing and claims decisions. And four, delivering excellent customer service solutions and value-added services to increase the ratios and retentions.

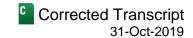
First, with respect to our pricing stance in the marketplace, we are far more focused on price adequacy than we are on the the trajectory of increases. We feel very good with the embedded profitability, which is essentially in line with our target margins. We will continue to manage renewal pricing on a granular basis, targeting accounts that we feel are not priced commensurate with future profitability expectations. Our strong distribution relationships, sophisticated pricing tools, and culture of underwriting discipline enable us to successfully execute our pricing strategy, effectively managing our goals around profitability and retention rates.

Second, we continue to leverage our superior distribution relationships as we execute on our objective of generating strong and profitable growth. Our stated long-term objective of obtaining 3% Commercial Lines market share is built around appointing partner relationships that control approximately 25% of our markets and seeking an average share of wallet of 12% across those relationships. We have an additional Commercial Lines premium opportunity in excess of \$2.7 billion over time if we hit our long-term targets, and can do so without having to stretch our underwriting appetite or shift our risk profile. Our geographic expansion strategy has been tracking well, since we opened five new markets over the past two years, consisting of New Hampshire and a Southwest hub incorporating the States of Arizona, Colorado, Utah, and New Mexico. Current imports premiums totaled approximately \$59 million from these new states.

Third, we continue to invest in deploying sophisticated underwriting tools and technologies that enhance our decision management capabilities and operating efficiencies. For example, we deployed our underwriting insights tool to new business underwriters in 2017 which provides model-driven guidance and real-time insights into how each piece of new business compares with similar accounts already in the portfolio.

We recently rolled out our underwriting workstation with a long – which along with automated data retrieval and data pre-filled, improves underwriting efficiency and exposure analysis. We recently opened our new innovation lab at our headquarters in Branchville, New Jersey, a facility that will enable our efforts to identify and deploy improvements to our product, agency and customer experience, and operational efficiency. Continuing to invest in the build-out of these tools is core to our strategy and has been a key factor in driving our outperformance.

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Finally, as we have often discussed on these calls, one of our major strategic initiatives has been enhancing the overall customer experience. Our objective is to create a differentiated value proposition for our distribution partners and customers and position Selective as a leader in this area. Our self-service and digital service offerings allow our customers to engage with us in a 24 by 7 environment. We now have a 360 degree view of our customers, allowing us to build out a more proactive communication program as we seek to create more value for them. Strong customer adoption of these offerings validates the investments and allows us to continue differentiating Selective in a crowded marketplace.

Overall, we continue to make excellent progress on our various strategic objectives. Looking out beyond 2019, we are in an extremely strong financial and strategic position. We have the technology, tools and people that will position us for future long-term success and are confident in our ability to generate superior financial results for our shareholders on a consistent basis.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] We have our first question on queue. It'll be coming in from Mike Zaremski of Credit Suisse. Your line is now open.

Michael Zaremski

Analyst, Credit Suisse Securities (USA) LLC

Hi, guys. Good morning. Congrats to Greg and John. This is actually Charlie on for Mike. I know you touched on it briefly, but it was notable that you guys released reserves in the GL line this quarter and have done so consistently this year, given that some other carriers have been talking about a rising loss trend. Can you talk about what you're seeing in that line and other casualty lines?

Gregory Edward Murphy

Chairman & Chief Executive Officer, Selective Insurance Group, Inc.

Got it. Well, John will start.

John J. Marchioni

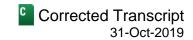
President, Chief Operating Officer, & Director, Selective Insurance Group, Inc.

Yeah, Mike. This is John. I'll start. And I guess what I would do I think at the outset is bring you back to the comments that both Greg and Mark had in their prepared remarks relative to the discipline, not just around our planning process that leads to our loss ratio selections but also the reserving process that we have as an organization. And based on those inputs, we feel very good about where we are relative to General Liability in particular and all lines on an overall basis. But I would also again point to the fact that that has been reiterated here this morning and over the last several years, which is, if you look at our history over the last 10 years and just assume a loss trend of about 3%, we've generated pure price increases net of exposure change at or above that level over that 10-year period and that's also embedded in each of those accident years when you think about trends that might be developing going forward. So you combine that with our position to execute our pricing strategy and manage retentions on a very granular basis and you put that all together to explain why we feel solid based on where we are today.





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Gregory Edward Murphy

Chairman & Chief Executive Officer, Selective Insurance Group, Inc.

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And Mike, it's Greg. Just – let me just add a little couple of points. First off, again, one size does not fit all, okay? So, when we start thinking trends and we start thinking price, I'd like you to start to contemplate the fact, the type of business that we write, we are – our average account size is 12,000 and the fact that 87% of our casualty policies are written at \$1 million below, the fact that we have a reinsurance program that attach to \$2 million, so a lot of the inflationary aspects of that get pushed into the reinsurance market, I think put a different profile on it. And then, I think when you really just even go back over the last five-year period and you look at where our rate level is and just look at our rate level relative to CLIPS, we were – we're at like 3.2% renewal pure rate and CLIPS, for all-in – everything, small, medium and large accounts is not even at 2%.

So, that consistent outperformance – and like John mentioned, we're an account underwriter, so where are those increases going? They're going in GL, they're going in other lines of business to build up what we feel we need is the right price for that exposure. So, there is a lot in all of that answer, but I think it's important; when people start applying the one rule or – in fact if you applied one rule on the rate increases, your head is going to pop off because you've got companies now talking about rate with exposure. Oh no, let me put – let me take exposure out, let me take comp out, let me put comp in and let me – you know, so when you think about it like that, our rate that we disclosed is renewal pure price, no exposure in it, and if we were to amp it up for exposure, it would take our rate level for the first nine months of the year almost up to 6 points; to give you a sense of the difference between what we report and what you may hear in the market relative to what rate is. So, again, I know that there is a lot in all of that, but I think it's important to understand all of that when you look at the performance of a company like Selective.

Michael Zaremski

Analyst, Credit Suisse Securities (USA) LLC

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Got it. That's very helpful. And then on the Personal Auto side, can you provide more color on what you're seeing there as far as the more pronounced competition?

John J. Marchioni

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

Α

Yeah. Charlie, this is John. I guess, what we see – what we continue to see is our hit ratios remain under pressure, which is the best way to measure where the competitive environment is. And we understand; our price increases, based on our view of profitability in that line have been higher than the market broadly and that continues to hurt our competitive positions. Now, we are starting to see an increase in commentary from some of the bigger players that maybe there is some change in loss trends relative to Personal Auto, which may start to change that pricing environment, and we haven't seen that yet, but that's really how we've seen the impact on our new business. And as we said earlier, that new business impact and our competitive positioning for Auto also impacts the Home line because we do have a lot of companion business with the Auto and Home.

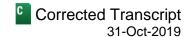
Michael Zaremski

Analyst, Credit Suisse Securities (USA) LLC

Great. Thanks, guys.

Operator: Thank you for that question. Our next question will be coming in from the line of Scott Heleniak of RBC Capital Markets. Your line is now open.

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Scott Heleniak Analyst, RBC Capital Markets LLC	Q
Hey, good morning.	
Gregory Edward Murphy Chairman & Chief Executive Officer, Selective Insurance Group, Inc.	A
Good morning, Scott.	
John J. Marchioni President, Chief Operating Officer, & Director, Selective Insurance Group, Inc.	A
Good morning.	
Scott Heleniak Analyst, RBC Capital Markets LLC	Q
Congratulations to you, John, and congratulations to Greg. Very exciting.	
Gregory Edward Murphy Chairman & Chief Executive Officer, Selective Insurance Group, Inc.	A
Thank you.	
Scott Heleniak Analyst, RBC Capital Markets LLC	Q

Wanted to ask about the – the first one I want to ask about was just the E&S premiums; they were down a little bit. They have been growing at a nice clip for quite a while now, and the margins have really turned around and improved there. So, I know you mentioned for Q4 the – discontinuing a program, but wonder if you could talk a little bit more about kind of what you're seeing there in terms of rates and terms and conditions. Obviously, the commentary here from other people in E&S is constructive. So, just wondering kind of what you're – what you guys are seeing across your book of business there.

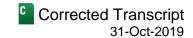
John J. Marchioni

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

Yeah. Scott, I appreciate the question. This is John, I'll start and then anybody else could follow on. We continue to see pressure when you look at the year-over-year comparisons as I mentioned previously relative to the onboarding of a significantly large relationship in the third quarter of last year which impacts the year-over-year comparisons in this quarter. And then I mentioned also that we expect a little bit of pressure in the fourth quarter because of exiting a small but volatile book of business around snow removal.

I would say, what you hear in the broad market relative to E&S pricing movement, you really have to break it down into different segments, and again recognize that where we play is in the small end of the market. Our average premium size is about \$3,000. Our predominant business is considered small binding authority business in your general run-of-the-mill segments. I think where the pricing has really moved and moved somewhat aggressively in E&S is going to be on the higher hazard business, larger accounts and property in particular. We're not a significant property player; it's about 25% of our book, but it's not a coastal and wind-exposed property book. And that's what I would say is more of a driver that you're hearing about in the marketplace.

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I would say our – the business that we write, you probably think about from a pricing trend perspective more of what we see in our standard market in the small and middle market space in terms of how price is moving for GL in particular.

Gregory Edward Murphy

Chairman & Chief Executive Officer, Selective Insurance Group, Inc.

A

And Scott, here Greg. I just think that – again, that this gets into the different profile of business where we're sure it's good for everybody. We write a mostly contract binding business; as John mentioned, it's smaller, it's smaller style accounts, they are not big coastal writer on property. And where we are seeing some rate movement is in the habitational risk, particularly in the high liveables, and in the hotel area we see a lot of that business exiting the primary market, coming back to us and we're writing that at fairly healthy levels. We've also seen a lot of improvement in our pricing, particularly in the contracting segmentation. And I think with all the changes that, that team has made under John's direction, we feel good about where we are price wise and now want to see it a little bit more into a growth mode. But as we've always said to you, we want to start with where the right levels is for pricing, and we'll always let the top-line grow or shrink based on how the market is accepting that.

We actually see a little bit more business flowing into us. We've opened up some new relationships as well that we feel very good about and would like to see the core contracting business start to pick up as we move into next year. But as John mentioned, we want – clearly foreshadow that snow book coming off in the fourth quarter.

Scott Heleniak

Analyst, RBC Capital Markets LLC

Right. Okay. That's thorough and definitely makes sense. Sounds like it's more of a mix issue compared to what everyone else is seeing and talking about. Wanted to ask you about – most your calls, you guys – you bucket out your risks into highest rated versus the lowest rated and it's – it was 49%. I think it's been level – kind of the highest performance for a while now versus 11% lowest performing. Do you expect that to change as the market firms and loss trends changes in terms of where the rate disparity is between the lowest performing versus the highest performing? I think it's about 8% versus 2%. Do you expect that to widen and the definition to change of what's highest versus lowest?

John J. Marchioni

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



Yeah. So, this is John. That's a segmentation that happens on a regular basis. And over time, you're essentially fitting your entire book of business into those buckets. So what you would expect to see is the combined ratio differential between your best and worst will start to tighten over time because you're managing your pricing fairly aggressively on that worst 10% and you're getting a little bit less pricing on the best 50%. So when you think about that pricing curve, you anticipate a flattening over time.

But there's also a bit of a forced distribution there. So, there's always going to be a worst 10% that we're going to be targeting and targeting aggressively. But over time – and this does happen over time, you will see that combined ratio curve flatten out a little bit, and then ideally your pricing would follow with that.

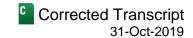
Gregory Edward Murphy

Chairman & Chief Executive Officer, Selective Insurance Group, Inc.



Then – and again, this is just – this is a by-product of the fact that we compete in a market that has a whole consortium of different players with different levels of sophistication. And this is where – everything was priced for the perfect information curve. All the combined ratios of that segmentation would be the exact same. But they're

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not because of this mis -because of the lack of knowledge out in the marketplace and what you need to compete with. And as John mentioned, we want to make sure that we're writing the right account for the right agent and we're balancing our book overall, but yeah, this is a an ongoing issue that your question to be answered would be, we would need a really hard, hard market to fix that slope of that curve significantly. I would say we take efforts – our best efforts every year to improve that and try to reduce the slope of the line. But that would need a hard look. Back when I first started in the 1980s in this business, we would need like an 1980s-style hard market to really fix a lot of that in the marketplace. But we are working on it every year.

Scott Heleniak

Analyst, RBC Capital Markets LLC



Yeah. Got it. And just last one is on the investment side, some of the – looks like there are some repositioning going on in the fixed income side, \$1 billion shift or so into one- to five-year securities – fixed income maturities from the 5 to 10 years. was that the floating rate securities that you were referencing before? Was most of the shift out of that or was there something else going on?

Mark Alexander Wilcox

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



This is Mark here. Thanks for the question, Scott. I'd say, when you think about the investment portfolio, it's remained very consistent from Q2 to Q3. The biggest repositioning we did was really on the risk asset side where we felt our public equities were getting to a very healthy valuation. So, we really dialed back the public equity allocation. And so, as I mentioned, the risk asset allocation went down to one of the lowest levels we've had in some time, just below 7%, 6.9% compared to closer to 8% where we've been.

The floating rate securities bucket is in that one year or less – for the most part in that one year or less category, but no real intentional shifts between the 1- to 5- or the 5- to 10-year category that was just normal transfer between those. So no major changes as it relates to the maturities there. Another way to think about it is that if you look at the duration, the duration is down a little bit at 3.3 years. That's probably the lowest duration we've had in quite some time. And the other statistic we look at to think about the maturity of the book is really our weighted average life. And that was pretty consistent for the quarter, just under five years.

Scott Heleniak

Analyst, RBC Capital Markets LLC



All right. Thanks for the answers. Good luck.

Mark Alexander Wilcox

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



Thank you.

Operator: Thank you. Our next question will be coming in from the line of Jamie Inglis of Philo Smith & Co. Your line is now open.

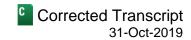
Gregory Edward Murphy

Chairman & Chief Executive Officer, Selective Insurance Group, Inc.



Good morning, Jamie.

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Jamie Inglis

Managing Director, Partner, Philo Smith & Co.

Q

Good morning. Greg, I want to say, I appreciate your great work building this company over this time, really do. And John, I look forward to your success. I really do.

John J. Marchioni

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

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Thank you.

Jamie Inglis

Managing Director, Partner, Philo Smith & Co.

C

I've got a question about the – two parts, one about the E&S segment. If you think about – so, a lot has been going on in this business for you guys, but if you think of sort of same store or same distribution or same territory sort of segmentation if you can, is this business going where you want it to be and are you getting the rates that you want to be and are you growing as fast as you'd like to be growing?

John J. Marchioni

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



This is John. And it's a great question. I would say the answer is yes on an overall basis. Our core business is that core binding authority, small binding authority business, predominantly contractors, habitational, other mercantile and service business.

And if you strip out all of the sub-segmentation noise in the quarter, we got a little bit of growth relative to our core binding authority business. As we cited last year as part of our profitability improvement initiatives, we have a couple of small, more volatile – small premium, more volatile segments like snow removal and like liquor liability that was attached to restaurants, bars and taverns that we've exited over the course of this year and will continue to exit into the fourth quarter. So, that is causing some of the noise in terms of the top-line, but we think it's generally – or has definitely contributed to the bottom line improvement. So, there has been some repositioning of the portfolio, but within that repositioning the focus on the core binding authority space continues to be where our focus is and we think we're well positioned to grow on that front.

Gregory Edward Murphy

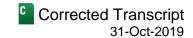
Chairman & Chief Executive Officer, Selective Insurance Group, Inc.



And this is Greg. Obviously the brokerage side, which I want to make sure when we say the brokerage side, we're not talking large brokerage accounts. These are accounts that we generally write in the market day in and day out; it's just that they don't meet our standards from a primary standpoint, but yet they do from an E&S standpoint. And I – this is a track that we could run a lot faster on as a growth opportunity in addition to the CBA business that John referred to earlier. So, we'd like to see – and we're getting more aggressive in some staffing. We've got nice system improvements coming online that is going to improve our capability moving forward. And so we feel that there is where I think we've got an opportunity to capture this .

The average contract binding authority account is like \$3,000. And so – and the other part of this is amazing, the amount of price sensitivity there is in a \$3,000 account, but in some cases there is. So, we feel on the brokerage side, the average account is much higher than that; it's a multiple of that and we've got an opportunity to expand that business.

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Jamie Inglis

Managing Director, Partner, Philo Smith & Co.

to be

Okay. Great. And then to shift over, if you think about your new states, new territories, is this a good time to be growing those given the sort of general market seems to be tightening in its different lines, different places. But as a general rule, the market appears to be tightening. Is this a good time to be growing in this – in those new areas? Is there potential for adverse selection against you guys in this market? What are your sort of thoughts about timing in this expansion?

John J. Marchioni

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



So, I would say that we didn't really think about market timing in terms of the pricing environment when we made a decision to open up these new markets, which started over – about four years ago, when you think about the initial launch of that effort. And part of it is because we think we built an underwriting operation that will perform throughout market cycles. And if you look over the last 10 years in terms of our ability to generate margin improvement and consistent profitability and manage pricing, we've demonstrated an ability to manage profitability throughout the pricing cycle. So, I think that's consideration one.

We enter those states with the same underwriting tools that we've had in existence for our entire portfolio. We talk a lot about the renewal of inventory management, but those same pricing in risk selection tools are used on a real-time basis by our new business underwriters. So, we knew going into these markets that we had those tools available, which was going to prevent us from being in any potential adverse selection situation. So, that's point number one.

Point number two is, we went in with the same field underwriting philosophy, the same underwriting appetite and the same agency management philosophy. So, we spent about a year prospecting agents. And to put it in perspective, our average agency count by state is in the low-teens. We opened up Arizona with about 15, and the other states with about 10 agency partnerships, which was a fairly diligent selection process. So, I would say the flow of new business, which has been strong and within our underwriting appetite is coming from agents that knew us, because in many cases they had regional or national relationships with us and understood what our appetite was coming in. So, I think we feel really good about the disciplined approach that we used to enter those states. And while the market shifts, I think broadly across our existing footprint and our new states will provide more opportunity for us. As pricing starts to move, we don't necessarily think differently about the new states versus our legacy states.

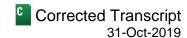
Gregory Edward Murphy

Chairman & Chief Executive Officer, Selective Insurance Group, Inc.



And Jamie, I would just add to that. The other part of the strategy is obviously doing a greenfield versus an acquisition. For us, greenfield was the right way to go because of everything John mentioned; people, agency, technology and culture that we wanted to establish, all fit into that. Well, you pick up the geo diversification which I think is a critical part for us to help balance some of our East Coast exposure. So, again, you are in some cases trading different types of exposures in terms of catastrophic activity, but it does better level load that and lessened some our catastrophe reinsurance costs countrywide, but also then it starts, as John mentioned, opens up opportunity as we expand and get bigger. We would expect that our share of wallet expectations will go higher because there are a number of accounts that our agents write that have properties outside of our footprint that now we will have access to write because our ultimate goal is 50-state capable. That's going to take a while, but we're not going to be full boots on the ground in every state, but we will – we do want to ultimately become more capable throughout the country to write accounts.

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Jamie Inglis Managing Director, Partner, Philo Smith & Co.	Q
Okay. Right. Sounds good. Good luck, guys.	
Gregory Edward Murphy Chairman & Chief Executive Officer, Selective Insurance Group, Inc.	A
Thank you.	
Operator: Thank you. Our next question will be coming in from the line of C now open.	hris Campbell of KBW. Your line is
Christopher Campbell Analyst, Keefe, Bruyette & Woods, Inc.	Q
Hey, good morning, gentlemen.	
Gregory Edward Murphy Chairman & Chief Executive Officer, Selective Insurance Group, Inc. : Good morning.	A
. Good Moning.	
John J. Marchioni President, Chief Operating Officer, & Director, Selective Insurance Group, Inc.	A
Hey, Chris.	
Christopher Campbell Analyst Keefe Bruyette & Woods Inc	Q

Hey, I guess my first question is on Workers Comp – and I apologize, I joined the call late in case this was already covered but, the loss ratio was up about 800 bps year-over-year but then you still had reserve releases. I guess just where are you guys booking your core loss ratios in that line versus where you were at a year ago?

Gregory Edward Murphy

Chairman & Chief Executive Officer, Selective Insurance Group, Inc.

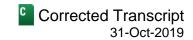
So, I mean, well right now, we have a very healthy process in when we establish and how we record our expectation for 2019 in terms of expectations around frequency, severity and the reserve release, if you're asking what accident years it came from, it was prior to accident – 2017 and prior in terms of where that came from. It's principally severity-focused, and more so on the medical side than on the indemnity side.

Mark Alexander Wilcox

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

Just to add to that Chris, just from a reserve development perspective this year in Q3 – you're referring to the quarter-over-quarter change versus the year-over-year change, although the percentages are pretty similar, we had \$13 million of favorable development go through that line item. So that was a 17.2% benefit on the Workers Comp line. A year ago, we had \$20 million of favorable development, so a 25.4 percentage point benefit. That's really I think the difference you're referring to. So a year ago, we had a little bit more favorable claims emergence in the quarter than we reflected in Q3 2019.

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Gregory Edward Murphy

Chairman & Chief Executive Officer, Selective Insurance Group, Inc.

A

But the accident years are pretty similar. If you look at the 2019 accident year versus the 2018 accident year, maybe a slight improvement, but not much so.

Christopher Campbell

Analyst, Keefe, Bruyette & Woods, Inc.



Okay, got it. That makes sense, because I think the favorable development explains most of it. Okay, and then just a question on Commercial Auto, like the big drop in the loss ratio there. I guess what's the dynamic happening there? Because I would expect that to kind of – to be a little bit higher, given like the BI severity trends, but just trying to understand that a little bit more, the crosswalk between the two year-over-year loss ratio in Commercial Auto.

Mark Alexander Wilcox

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



Yeah. Chris, this is Mark. Let me start it and Greg and John can jump in as well. So suffice to say, Commercial Auto is not meeting expectations. Coming in at 108% combined for the quarter is not where we want to be from a target combined ratio perspective. The good news though is that we are having a little bit more stability in the claim trends when you think about frequency and severity in Commercial Auto. So last year, we saw some pretty significant pressure on both the prior accident years as well as the current accident year in the Commercial line of business and in Q3 2018 we booked \$10 million of adverse developments which was about 8 points on the loss ratio of Commercial Auto.

We were 25 year-to-date – \$25 million year-to-date through 9/30 which is about 6.8 points on the loss ratio. The other piece of the puzzle there is, last year we were also starting to feel particularly when we went into the third quarter, an elevated level of claim counts that put pressure on frequency and we increased the current accident year pretty significantly. That was \$16 million year-to-date through 9/30, but most of that happened in the third quarter of 2018. So we had a \$13 million increase at the current accident year or about 10 points on the loss ratio in Q3.

So, those are sort of the moving parts. It's still not where we want to be, but I think has settled down in Commercial Auto. John talked about the rate increases year-to-date and that's 7.4 percentage points. So things are starting to stabilize, and hopefully we'll start to see some margin improvement in that line of business going into 2020.

A

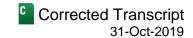
Gregory Edward Murphy

Chairman & Chief Executive Officer, Selective Insurance Group, Inc.

So, Chris, I think the easiest way to look at this and take all the noise out, is just look at our underlying combined ratio. And if you looked at – your question was, what are you seeing?

Let's focus on the underlying for a second. So, our underlying combined ratio for the nine months of 2018 is, let's call it, 105.5%. For the nine months of 2019, it's 106.5%. So we're up 100 basis points. So to answer your question, we're seeing an increase in the underlying combined ratio of 100 basis points in spite of increasing rate, 7.5% this year, 7.5% last year. And I think what you – so you are seeing an element of year-on-year, a modest increase in that.

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I would just call that mostly noise, and some of that is the fact that this line of business has the highest loss trend than any other of our lines of business, and that was true in the expectation in the 2019 year, as well that will carry somewhat into 2020 as we sweat through all of those projections as we move forward.

But we are starting to see a little bit of the apex of what we view as claim frequency relative to either – if you want to look at it relative to power units or look at it relative to on-level premiums, we are starting to see that level out and kind of flatten out and not continue the upward trend that we saw up to 2018, call it.

Christopher Campbell

Analyst, Keefe, Bruyette & Woods, Inc.

Okayyou're seeing 7.4% rate increases in Commercial Auto, so – or can we assume and you're expecting margin expansion? So are you guys assuming like 6% or less as loss cost inflation going forward?

Gregory Edward Murphy

Chairman & Chief Executive Officer, Selective Insurance Group, Inc.

We're not going to get into the specificity by lines. I'd like to keep our loss trend overall, because it does bounce around line by line. But I would say that when you think about the lines that will be weighted higher, it would be the comp. So the margin improvement will come from our rate level relative to our expected loss trend; and we expect that to have improvement, as well as all the things we're doing from an underwriting standpoint. You asked earlier, John, a question about above average, low, medium. Well, that's what we're doing a lot of our heavy lifting to improve profitability and some of that comes squarely into the Commercial Auto segmentation.

Christopher Campbell

Analyst, Keefe, Bruyette & Woods, Inc.

Okay. Great. And then just one last one on the net investment income. How should we be thinking about modeling that going into 2020, given the recent interest rate decline?

Mark Alexander Wilcox

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



Yeah. Good question, Chris. I...

Gregory Edward Murphy

Chairman & Chief Executive Officer, Selective Insurance Group, Inc.

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Wait one quarter, Chris. You'll have it. I'll make your life easier. How about this; one more quarter, you will actually have the number.

Mark Alexander Wilcox

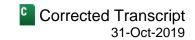
Chief Financial Officer & Executive Vice President, Selective Insurance Group, Inc.



The countdown is on; in 90 days' time we'll give you the – our best estimate for 2020. This year we're expecting good growth in net investment income after-tax of a \$180 million despite the much lower interest rate environment where we are today versus where we started the year where we were able to maintain the guidance and in fact increase it by \$5 million earlier in the year given the strong performance in the alternative portfolio.

I would say going into 2020, clearly there's going to be some pressure on the book yields and in our core fixed income portfolio. Offsetting that is going to be continued strong cash flow. Greg referenced the 22% cash flow from operations as a percentage of NPW during the quarter and 15% year-to-date. Our investment portfolio

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experienced about 10% growth in invested assets thus far in 2019. So, I think we could – we're not going to – we're not ready quite yet to put out the number for 2020. But we feel pretty good overall about generating good, continued strong net investment income for the portfolio going into 2020 despite the lower interest rate environment.

One thing though, just to state the obvious, and I sort of alluded to it earlier. Given the lower interest rate environment, our strategy around managing the investment portfolio will remain the same, which will be to stay up in quality, at this point stay on the low end of duration from an interest rate perspective. And with risk assets being at fairly property valuations, if you look at high yield credit spreads or public equity valuations, will probably continue to remain underweight from a risk asset perspective. So staying the course and being – maintaining that conservative investment philosophy going into next year. We're not going to stretch or reach for yield at this point.

Christopher Campbell Analyst, Keefe, Bruyette & Woods, Inc.	Q	
Okay. Great. Well, thanks for the answers and best of luck in the fourth quarter.		
Gregory Edward Murphy Chairman & Chief Executive Officer, Selective Insurance Group, Inc.	A	
Thank you, Chris.		
Operator: Thank you. [Operator Instructions] Our next question would of Sandler O'Neill. Your line is now open.	be coming in from the line of Tom Shimp	
Tom Shimp Analyst, Sandler O'Neill & Partners LP	Q	
Hi. Good morning, guys.		
Gregory Edward Murphy Chairman & Chief Executive Officer, Selective Insurance Group, Inc.	A	
Good morning, Tom.		
Tom Shimp Analyst, Sandler O'Neill & Partners LP	Q	
Just a quick question. Can you walk through the drivers of the reserve in	ncrease in the Personal Auto line?	
Gregory Edward Murphy Chairman & Chief Executive Officer, Selective Insurance Group, Inc.	A	
As we said here, it's not a big increase overall; it's just a minor movement just reflects where we are and a little bit of an upward movement. But \$2	•	

Tom Shimp

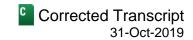
Analyst, Sandler O'Neill & Partners LP

Okay. And then just one more question. You had a large insurer last week talking about the worsening tort environment. I was wondering if you guys could add in any commentary regarding that.

hard to sit there and talk about that with great specificity. It's general – I would characterize – frankly, it's, Tom,

just general noise on the - the quarter-to-quarter basis.

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John J. Marchioni

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

A

Yeah. Tom, this is John. And I guess I would also call back to the prepared commentary that we had, which is, our disciplined process around planning and reserving and how we look at frequency and severity trends and changes in frequency and severity trends has us well positioned to see any changes in the environment, and from a pricing perspective, react guickly to them.

Our disciplined history around pricing relative to a consistent loss trend – future loss trends expectations over the last 10 years has us feeling good about our current position. We haven't really seen in our own portfolio any significant change from a severity perspective that has us alarmed, but we're also mindful of the commentary in the industry.

I will also say and I – we've talked about a couple of different topics on this front, but if – and not that lower-limit business is completely immune from a changing tort environment, I think some of that – it'll certainly be in the mega awards focused on the bigger insureds. But there will be some potential bleed over into smaller accounts. And just to remind you, our casualty book of business is about 87% limits of \$1 million and under, and then another 7% or so of limits between \$1 million and \$2 million. So about 95% of our business has limits of \$2 million and less and then we have a casualty excess of loss treaty that kicks in at \$2 million. So you also want to keep in mind the limits profile and the hazard profile which is also more heavily tilted towards low and medium hazard classifications on the casualty side.

Gregory Edward Murphy

Chairman & Chief Executive Officer, Selective Insurance Group, Inc.



And I think the other thing you can look at to kind of distill all that from what's really happening in the marketplace, if you look at some of these carriers and you look at the rhetoric relative to trend but then look at where their price increases are by segment, and then – that really tells you something, because when you look at it that way, you'll see that there's much higher price movement on the larger end of their accounts structure. But yet when you go into some of their smaller end segments, they're still bouncing in the 1%, 2% range which then stacks up to our 320, 330, 350 and that – so that kind of does – it ties together with generally the type of business that we write.

And also when you start to disaggregate their performance and what they're doing rate-wise, it allows you to get a little bit of a lens into what they're trying to fix. And it seems like the fix is more on where a lot of attorneys are going reptile on different insurers, but that has a tendency to be larger-style insureds, more not trophy, but I would say higher exposure type accounts where you start to see that. And as John mentioned, you got to expect a little bit of that to come down into our – throughout the entire portfolio. But we're well prepared for that and well-schooled for it.

Tom Shimp

Analyst, Sandler O'Neill & Partners LP

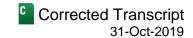
All right. Thank you. That's very helpful.

Operator: Thank you. At this time speakers', we do not have questions on queue. Please proceed.

Gregory Edward Murphy

Chairman & Chief Executive Officer, Selective Insurance Group, Inc.

Q3 2019 Earnings Call



Well, thank you very much for participating in today's call. If you have any follow-up, Mark and Rohan are clearly available for any additional questions that you have. I have to say these were great questions today, so we truly appreciate it. Thank you.

John J. Marchioni

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

Thank you.

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

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