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# Selective Insurance Group, Inc. (SIGI)

## Q1 2025 Earnings Call


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# CORPORATE PARTICIPANTS

**Brad Wilson**
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**John J. Marchioni**
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**Patrick S. Brennan**
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# OTHER PARTICIPANTS

**Michael Phillips**
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**Michael Zaremski**
*Analyst, BMO Capital Markets Corp.*

**Paul Newsome**
*Analyst, Piper Sandler & Co.*

**Meyer Shields**
*Analyst, Keefe, Bruyette & Woods, Inc.*

# MANAGEMENT DISCUSSION SECTION

**Operator**: Good day and welcome to the Selective Insurance Group First Quarter 2025 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. Instructions will be given at that time. As a reminder, this call may be recorded.

I would like to turn the call over to Brad Wilson, Senior Vice President, Investor Relations and Treasurer. Please go ahead.

## Brad Wilson
*Senior Vice President-Investor Relations & Treasurer, Selective Insurance Group, Inc.*

Good morning. Thank you for joining Selective's first quarter 2025 earnings conference call. Yesterday, we posted our earnings press release, financial supplement and investor presentation on selective.com's Investors section. A replay of the webcast will be available there shortly after this call.

John Marchioni, our Chairman of the Board, President and Chief Executive Officer; and Patrick Brennan, Executive Vice President and Chief Financial Officer, will discuss first quarter results and take your questions. John and Patrick will reference non-GAAP measures that we and the investment community use to make it easier to evaluate our insurance business. These non-GAAP measures include operating income, operating return on common equity and adjusted book value per common share.

The financial supplements on our website include GAAP reconciliations to any referenced non-GAAP financial measures. We will also make statements and projections about our future performance. These are forward-looking statements under the Private Securities Litigation Reform Act of 1995, not guarantees of future performance. These statements are subject to risks and uncertainties that we disclosed in our annual, quarterly


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and current reports filed with the SEC. We undertake no obligation to update or revise any forward-looking statements.

Now, I'll turn the call over to John.

## John J. Marchioni

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

Thanks, Brad, and good morning. We delivered a solid start to the year, with an overall combined ratio of 96.1%, and after-tax net investment income of $96 million. Return on equity and operating return on equity were 14.4%. Net premiums written grew 7%, driven by Excess and Surplus Lines and Standard Commercial Lines.

Personal lines premium decreased by 12%, as we improve that portfolio's profitability. Patrick will provide more detail on these results and our 2025 guidance, which still points to a full year combined ratio between 96% and 97%, and an underlying combined ratio of 90% to 91%.

While our full year guidance implies a mid-teens operating ROE, we remain focused on improving our underwriting margins, which have been pressured of late due to the widespread impacts of social inflation on average casualty severities. We are absolutely focused on restoring our profile as a company that delivers consistent underwriting margins and operating ROEs. Over the past decade, our average combined ratio was 95% and our average operating ROE was 12%.

We are confident that our approach to addressing the elevated loss trend environment through our reserving, planning, underwriting, and pricing actions will quickly restore that profile. We continue to price new and renewal business contemplating our latest view of loss trends and profitability relative to our 95% combined ratio target.

In the first quarter, overall renewal pure pricing across our three insurance segments was 10.3%, up 2.2 points from a year ago. Overall renewal pure pricing is approximately 3 points above our loss trend assumption. Assuming this trend continues, it implies future margin expansion.

Turning to segment performance. Standard Commercial Lines reported a 96.4% combined ratio. Renewal pure price increased to 9.1%, driven by General Liability at 12%. Retention was stable at 85%. Market dynamics and pricing rationality vary by line, we continued to deliver elevated renewal pure price increases in commercial property and commercial auto, both of which exceeded 10%.

Renewal pure price, excluding workers' compensation, was 10.5%. Excess and Surplus Lines, driven by average renewal pure price increases of 8.7% and strong policy count growth, had 20% net premiums written growth in the quarter. With a 92.5% combined ratio and 81% underlying combined ratio, we see continued growth opportunities for that segment. However, that market remains competitive and we will continue to prioritize our profitability objectives as we pursue growth.

Personal lines delivered a combined ratio of 98%, approximately 7 points better than a year ago, as our rating and non-rating actions to reposition the book advanced profitability improvement. Renewal pure price was 24.1% in the quarter. While target business grew 11% in the quarter, total personal lines net premiums written decreased due to deliberate profit improvement actions. Notably, new business decreased by 58%, as we focused on profitable growth in states where our rate levels are adequate.


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We expect rate changes will remain above loss trends, but moderate compared to our rate increases in 2024. We do not have filed rates that support our necessary path to profitability in certain states, including New Jersey, our largest state. And we significantly curtailed production in those states.

I'll close with a few comments on our corporate strategy, risks and opportunities as we navigate this highly dynamic macroeconomic environment. As an insurer, we create value by assuming risk for our customers, allowing them to operate their businesses and live their lives with the knowledge that their assets are protected. The contingent capital we provide is an essential social utility, and our independent agents and wholesale brokers value us as a stable partner.

Over time, we reward shareholders through strategic execution, prudent enterprise risk management and profitable growth. We often highlight how our differentiated operating model and empowered decision-makers deliver our products and value-added services through our distribution partners to our customers. Every year, several of our executives and regional management teams hold six regional agency council meetings with a cross-section of our distribution partners.

This year, their feedback reinforced that our differentiated approach continues to resonate with our business partners and customers. Our open and dynamic discussions about customer expectations, the insurance market, talent, technology, and artificial intelligence confirm that despite the risk in the external environment, significant market opportunities exist for Selective and our partners.

The insurance industry faces significant macroeconomic uncertainty, including financial market performance, international trade and a possible recession. We may be impacted by whatever changes ultimately occur in these areas. Nonetheless, we will be able to face these challenges by focusing on our long-term value proposition and by focused strategic execution in the areas we control. As always, we will carefully navigate the uncertainty in the environment, responding prudently as new information emerges. Our significant investments in recent years to support scalable and profitable growth provide us with many opportunities to increase our market share while meeting or exceeding our profitability targets.

We remain disciplined underwriters, unwilling to trade that profitability for growth. New business moderated in recent quarters, including this one, as we push pricing higher resulting in reduced hit ratios. However, policy retention has remained strong as we execute our pricing strategy in a granular fashion. As we position ourselves for the future, we have several strategies to grow market share profitably.

In our existing footprint, we are focused on growing with existing partners and strategically appointing new agency locations. In the first quarter, we added 30. In 2024, we had a net increase of 200. Careful and deliberate geographic expansion continues to provide lift. Since 2017, we have added 13 states to our Standard Commercial Lines footprint, with 5 last year. In 2024, these 13 states accounted for 2 points of growth, adding $350 million of premiums written or approximately 10% of Standard Commercial Lines production.

Profitability in these expansion states is meeting our expectations. Technology investments are critical to ensure efficiency and scale. We are actively developing and executing artificial intelligence use cases focused on underwriting scalability and improving claims outcomes. We've also made considerable progress modernizing our excess and surplus lines, commercial lines, and claims systems. For example, in E&S, system and process enhancements have improved operational efficiency, with the segment's premium production up significantly with limited head count growth.


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Our actions in 2024 and the continued execution of our strategy in 2025 leave us well positioned, despite the uncertainty in the external environment.

Now, I will turn it over to Patrick, who'll provide more details about our financial results.

## Patrick S. Brennan

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

Thanks, John, and good morning, everyone. Net income available to common stockholders increased 34% in the quarter. Fully diluted EPS and non-GAAP operating EPS were both $1.76. And as a result, our return on equity and operating return on equity were both 14.4%. The GAAP combined ratio for the quarter was 96.1% and included 3.7 points of catastrophe losses and 0.4 points of unfavorable prior year casualty reserve development isolated to personal auto.

Our underlying combined ratio was 92%, 150 basis points above the midpoint of our full year guidance. However, we believe our full year underwriting combined ratio will meet our original 90% to 91% expectation as the first quarter underlying combined ratio tends to be higher than other quarters due to normal seasonality.

Turning to capital. Our capital position remains strong, with $3.3 billion of GAAP equity and $3.2 billion of statutory surplus at March 31. Book value per share increased 5% in the quarter, driven by our profitability and a $1.06 per share reduction in after-tax net unrealized fixed income security losses. Debt-to-capital increased to 21.7% at quarter-end due to February's successful $400 million senior notes issuance. The transaction received strong investor support and we are using the proceeds for general corporate purposes, including supporting disciplined and profitable growth, which we consider the most prudent way to create long-term value for our investors.

We return capital to shareholders through regular quarterly dividends; and from time to time, we also engage in opportunistic share repurchases. During the first quarter, we repurchased $19.4 million of common stock at an average price of $82.87 per share. As of March 31, 2025, $56 million remained under our repurchase authorization.

First quarter after-tax net investment income was $96 million, up 12% from a year ago. This generated 12.8 points of return on equity, up 50 basis points from 12.3% in the first quarter of 2024.

Our strong operating cash flow and the senior notes proceeds resulted in a very active first quarter, allowing us to invest over $900 million of new money. The average new purchase yield was an attractive 6% pre-tax. Consequently, the quarter-end average pre-tax book yield increased to 5%. We expect our fixed income portfolio's embedded book yield will provide durable investment income. However, the volatile external environment presents downside risk to our net investment income guidance, particularly related to alternative investments.

Over our investment horizon, we expect alternative investments will produce at least a 10% return. However, the asset class has inherent economic variability due to its higher risk and return profile and higher accounting variability because market value changes flow through the income statement.

Overall, our investment portfolio remains conservatively positioned. Total fixed income and short-term investments represented 92% of the portfolio at quarter-end, with an average credit quality of A+ and a duration of 4.1 years.


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Our overall investment strategy is to maximize the economic value of our portfolio by achieving stable, risk-adjusted, after-tax net investment income and contributing to long-term growth in book value per share. We do not expect to change our investment strategy or allocations meaningfully, but our portfolio's positioning enables us to evaluate and act upon opportunities that market dislocations or volatility may present.

Pulling together what we've discussed, we are reaffirming our original 2025 guidance, which is as follows. We expect our 2025 GAAP combined ratio will be between 96% and 97%, including 6 points of catastrophe losses. As a reminder, our longstanding practice is to not assume any additional prior accident year reserve development in our forward guidance. At this time, we are not revising our after-tax net investment income guidance of $405 million.

A higher asset base from our senior notes issuance proceeds should benefit net investment income. However, alternative investments could face valuation headwinds in the coming months. Depending on the ultimate outcome and timing of tariffs, economic uncertainty and financial market volatility, there's heightened risk that alternative investment income could come under pressure when we report second quarter earnings. As a reminder, we report alternative investment income on a one quarter lag. We remain comfortable with the long-term performance expectations of the asset class and our 4% allocation.

Our guidance includes an overall effective tax rate of approximately 21.5% and an estimated 61.5 million of fully diluted weighted average shares, including those repurchased in the first quarter and assumes no additional repurchases under our existing share repurchase authorization.

Operator, please start our question-and-answer session.

# QUESTION AND ANSWER SECTION

**Operator**: Thank you. [Operator Instructions] Our first question comes from Michael Phillips with Oppenheimer. Your line is open.

**Michael Phillips**
*Analyst, Oppenheimer & Co., Inc.*

Q

Thanks. Good morning. John, in your opening comments, you talked about overall pricing of 10.3% and how that was probably about 3 points above loss trends overall. Could you drill down to, I guess, the casualty side and what you're seeing. Any updates there on your loss trend assumptions and how that might compare to and pricing was up in GL, which is good, but maybe just comments on what you're seeing for GL loss trends. Thank you.

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

A

Yeah. Thanks, Mike. So, our view of loss trend is unchanged from the beginning of the year. When we put together guidance, as you recall, we had all-in casualty loss trend at about 8.5%. And again, that's all in, so GL and workers' comp and commercial auto liability were all in that number. And we've talked about GL in the 9% kind of range, all driven by severity. That continues to be our view.

And I think it's important to remember that our 2025 guidance and what we're applying that loss trend to is – includes the 2024 year where we acted pretty quickly to increase our expected loss ratio in the GL line by a little


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over 7 points, almost 7.5 points. So that trend is now reflective of what we have observed in actual severity changes over the last few years. And as a result of that, we continue to stay with that as our trend expectation.

**Michael Phillips**
*Analyst, Oppenheimer & Co., Inc.*

Q

Okay. No, thank you. If I could drill down to one line in commercial auto, if I could. You've talked about there how pricing set up higher for longer, and that's been kind of helping to ward off any potential reserve charges. So far so good there. I guess I was surprised to see maybe – maybe surprise [ph] is not the word (00:17:16), but your loss pick in the quarter came down about 3 points. And maybe just if you can drill down to kind of what's behind that.

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

A

You're talking specifically on commercial auto?

**Michael Phillips**
*Analyst, Oppenheimer & Co., Inc.*

Q

Yes. Yes, I am, John.

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

A

Yeah. So I think, again, I – remember, this is a multiyear pricing change. And I think I might have gone through this last quarter. If you focus on commercial auto BI, our average change over the last four years is a little over 10%. And then you saw that 10% remain in the quarter. So, just roughly speaking, assuming that longer-term trend that we've pointed to in the 8 percentage kind of range, you've had a number of years now where your earned rate level has been running slightly above that elevated loss trend. And that's going to be the – probably a larger driver.

But also remember, auto physical damage is in that line in total. And we've continued to generate strong rate on auto physical damage, and that loss trend tracks closer with our property trend, which has been in the, call it, 3.5 kind of range. So you definitely have more improvement on the auto physical damage side than you might see necessarily on the auto BI side that might be a little bit more flattish. And those are how the pieces come together.

**Michael Phillips**
*Analyst, Oppenheimer & Co., Inc.*

Q

Okay. No, thank you. I'll circle back if I need to. Thanks, John.

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

A

Thank you, Mike.

**Operator**: Thank you. Our next question comes from Mike Zaremski with BMO. Your line is open.

**Michael Zaremski**
*Analyst, BMO Capital Markets Corp.*

Q


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Hey. Morning, gentlemen. The first question I have is on the seasonality comments. If I look at kind of the historical seasonality, we can see it. And I'm doing the math quickly, but it seems like this year seasonality is more pronounced, maybe more than two times the historical level. Any thoughts on what's causing the greater seasonality this year than in the past?

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

A

No, I think – that's – the seasonality we're anticipating is largely driven by non-cat property. And when you look back historically, that's held up pretty well. Now, there's expense ratio movement that also could impact what you see on a historical basis, and that might vary from year-to-year, but on the non-cat property side, this is pretty much what we've seen on a historical basis.

**Michael Zaremski**
*Analyst, BMO Capital Markets Corp.*

Q

Okay. Got it. Okay. It seems like it was a [ph] 150, 40 basis points (00:19:50) above the midpoint this year of your guide and it historically has been more like 60 basis points above in 1Q. So, just to make sure, you're saying that you didn't – you're not – you're just seeing kind of typical normal seasonality for you all this quarter, if I just want to clarify.

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

A

Correct. And if you – if you break down the difference in terms of 2024's underlying combined ratio and the guidance, there's about a – or the – I'm sorry, Q1 result, there's about a 2.5-point difference. About 1 point of that is seasonality.

**Michael Zaremski**
*Analyst, BMO Capital Markets Corp.*

Q

Okay. Okay. Got it. Workers' comp, I know you've – we can see that you're booking above 100 now. I know you've called out workers' comp is becoming less favorable in quarters last year, but it seems like a pretty conservative pickup. Any color on what's – what you're seeing there?

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

A

Yeah. I think a couple of points I'll highlight there. If you look back to last year on an accident year basis for us, we were in that 97 to 98 range, when you back out the impact of favorable development from prior years. And honestly when you look at it on an industry basis, I think you'll see the 2024 accident year on an industry basis is in that neighborhood of 100.

Now, granted the older accident years have continued to emerge favorably, albeit maybe a little bit more lightly favorable, and I think that's also been an industry-wide trend. So let's just assume that high 90s for us, industry kind of 100 starting point on an accident year basis, our written rate last year was around negative 3%. Our first quarter rate is around negative 3%. So let's just assume you've got an earn rate impact of about 3% negative. As we've done, and we pointed to this last year, we've started to see a flattening of frequency trends. So on a roll-forward basis, 2024 into 2025, we're assuming flat frequencies. And then you've got the impact of severity inflation largely driven by medical. And that – let's put it somewhere in the mid-single-digit range in terms of where we anticipate medical severities on a go-forward basis. You combine that with flat frequencies and a negative 3% earn rate, and that's how you roll it forward. And I think that applies on an industry basis as well.


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Now, to the extent the prior years continue to emerge favorably, and in particular to the extent 2023 and 2024 ultimately emerge favorably, which we haven't recognized anything there at this point because they're immature, but to the extent that continues, that might prove a conservative assumption. But we think based on where we are today, that's the appropriate way for us to establish the ELR, the expected loss ratio for 2025.

**Michael Zaremski**
*Analyst, BMO Capital Markets Corp.*

Q

Okay. I appreciate the candidness. I guess we haven't heard other peers or maybe they just haven't been asked about seeing the flattening frequency. I know you guys have called that out, so we're – and I guess in our seats we're trying to figure out if it's a mix thing that's specific to SIGI – Selective, sorry, or it's a industry-wide phenomenon. And I think you're saying it's more industry wide. So, we'll dig into that more.

Okay. Lastly, just trying to think, I know this is also an industry issue impact on tariffs on the commercial property side. Do you have any views on kind of how many points that could cause the industry to need to push price if the current tariff regime sticks and comes into play? Any thoughts there? I feel like most management teams so far have been willing to say it'll have an impact, but no really quantification.

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

A

Yeah. So first of all, I'm not sure I'm going to give you anything other than what you haven't already heard, which I think there's been some accurate commentary out there for some of our peers. First of all, it's early and understanding where tariffs ultimately settle is very much an open question at this point. But I would say – and I'll talk about it overall and then I'll certainly hit your question around commercial property specifically.

But I would say, overall, when you factor in the various mitigants, it is a manageable impact from a loss cost perspective. So, the primary impacts obviously are auto physical damage lines, both personal and commercial, and then property at home. But I think when you look at the various mitigants, the first one would be, what are the loss cost of labor versus materials? And if you look at it on an auto basis historically, the loss costs are about 60% labor.

And on the property side, both commercial and personal blended, labor is in the neighborhood of 55-or-so percent of the cost. So, that's an impact that sort of mitigates the impact of tariffs. And then you've got the consideration relative to materials that are coming from imports versus those that are produced and sourced domestically. And if you look at auto parts, it's as much as 40% of those are produced and sourced domestically. So there's a balancing there.

And then on lumber, which is a big input on both commercial and personal property, a significant – more than half of that is produced and sourced domestically. So that lowers the impact. And then on – with the property line in particular, you've got the inflation-sensitive exposure basis for both commercial property and home, which allows you to respond with regard to insurance – to value or total insured values in addition to price. And that's a relatively quick triggering item that as we see that, those loss costs start to come through, you can respond relatively quickly from an exposure basis perspective.

So I think, if you put all those pieces together, I don't think there's any question, personal auto physical damage is probably the biggest impact on a line basis. That's obviously a smaller impact for us. And then it works down from there. And you're probably looking at something in the low-single digits on an overall basis.


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**Michael Zaremski**
*Analyst, BMO Capital Markets Corp.*
Q

Okay. That's excellent color. And hopefully, you're okay with me asking one quick follow-up to the work comp discussion earlier...

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

Sure.

**Michael Zaremski**
*Analyst, BMO Capital Markets Corp.*
Q

...because – looking at the live transcript. So you said negative 3% earned rate in comp. Does that include wage inflation? I think it does. I thought wage inflation has been really helping the earned rate in that line for the industry, given – looks like wage inflation is still at pretty healthy levels.

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

Yeah. That is – Mike, that's a pure rate number I'm giving you. We haven't put exposure change numbers out there for workers' comp. That's pure rate. So there's no question – there's no question, wages are an offsetting impact to that.

**Michael Zaremski**
*Analyst, BMO Capital Markets Corp.*
Q

Okay. Thank you.

**Operator**: Thank you. Our next question comes from Paul Newsome with Research (sic) [Piper Sandler]. Your line is open.

**Paul Newsome**
*Analyst, Piper Sandler & Co.*
Q

Good morning. Was hoping you could talk a little bit more about the competitive environment in pricing, which is becoming a little bit of issue this quarter. Just concerns that certain areas are softening and certain not. And maybe you could put that into the context. My sense is that Selective is at this point raising rates more than the vast majority of the competitors, but maybe I'm wrong about that. And just any thoughts you have about sort of how you see yourself relative to others in the market environment?

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

Yeah. I think – from a GL perspective, I think your depiction of where we are is an accurate one. And I think our view was that when we reacted to the 2022 and 2023 accident years and in the middle part of 2024, we thought it prudent to also move 2024 higher, which then reset our pricing targets in order to offset that increase in expected loss ratios and our forward trend assumptions.

And I think there's no question that as a result of that, our pricing targets are probably above where the broader market is. And you do see that impact on our conversion rates and therefore our new business, which in


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commercial lines was flat on a year-over-year basis. Now remember, we continue to open up additional distribution points, whether it's through new states or new agents, so that if you think about it on a same-store basis, that's probably a little bit more negative in terms of where the growth is.

And as we've said, we've got conviction around where we're pricing from a GL perspective and we think that's appropriate based on our incorporation of those higher run rate severity trends into our forward view. And our objective here is to stay ahead of the curve from a severity perspective. And we're not – while we recognize that there will be an inflection point, where social inflation starts to normalize, we're not assuming that happens in 2025 and we're pricing according to that.

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**Paul Newsome**
*Analyst, Piper Sandler & Co.*

Q

That makes sense. It always seems to be the right decision to be ahead on pricing. Related to that question is one of retention. And obviously, there's been a pretty quick new business impact. But do you expect – or should be prudent for us to be thinking that retention will be impacted in coming quarters as well from that competitive environment and then sort of things stabilize after that?

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

A

I think – retention has held up well for a few quarters now. And the pricing change we're talking about was – our run rate in the early part of – or mid part of last year was in the high-single digits and now we're in the 12% kind of range. But you really want to think about it in terms of overall pricing change. And we've been in that 8% all-in because that's – remember, we write on a package basis for the most part. So this is one line and you've got other lines that are impacting the overall rate change.

We were at 8.3% for all of last year in Standard Commercial Lines and now we're at 9.1%. So, you've got different lines moving in different directions, but overall higher. So it's not such a dramatic move that it's dramatically impacted retentions. But again, we're at a point in the market where we think it's appropriate to focus on achieving your price target. And if that has a slight impact on retention over time, we're willing to make that trade.

But I also want to highlight, and I made reference to this in my prepared remarks, we continued to execute our pricing strategy on a granular and targeted basis, which should also mitigate the overall impact from a retention perspective.

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**Paul Newsome**
*Analyst, Piper Sandler & Co.*

Q

Thank you. Your thoughts are much appreciated. We appreciate the help.

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

A

Thank you, Paul.

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**Operator**: Thank you. [Operator Instructions] And our next question comes from Meyer Shields with KBW. Your line is open.

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**Meyer Shields**
*Analyst, Keefe, Bruyette & Woods, Inc.*

Q

Great. Thanks. Good morning and thank you so much for the enhanced disclosure with cats and reserve development by line which makes things a lot easier to follow. Two quick line of business questions. First, in the ISO data, I guess the [ph] Fast Track (00:31:47) data, we're seeing maybe surprising decreases in claims frequency for physical damage coverages. And I'm wondering whether that translates into these mass affluent personal lines books that Selective writes?

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

A

Yeah. So we are – we are seeing the same thing on both commercial auto physical damage and personal auto physical damage. And I'm sorry [audio gap] (00:32:13), I just want to make sure that your question related – I didn't hear the full question related to the affluent market. I think it's across the board and we're seeing it in our target market as well.

**Meyer Shields**
*Analyst, Keefe, Bruyette & Woods, Inc.*

Q

Okay. Yeah. No, that's perfect. That's really what I wanted to know. [ph] Second question (00:32:29), I was hoping you could take us through the specifics of your bond book with regard to, I guess, both potential claim cost inflation on construction materials and overall sensitivity to the economy.

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

A

So, you're asking specifically about the bond or surety book, or you're asking about the construction book?

**Meyer Shields**
*Analyst, Keefe, Bruyette & Woods, Inc.*

Q

I was asking about the surety book, but I'd welcome comments broadly if you want to make them.

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

A

Yeah. I mean, the surety book for us is a relatively small portfolio. It's in the range of $40 million. It's around 1% of our overall premium. We've been in that business a long time. The results have continued to be very strong. And obviously, to the extent we anticipate impacts from an economic perspective, we would adjust our pricing accordingly.

**Meyer Shields**
*Analyst, Keefe, Bruyette & Woods, Inc.*

Q

Okay. Do you view your book as subject to sort of macroeconomic pressures?

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

A

We're not writing large contract surety. We're a small market – lower end of the mid-market player in that space. So, you want to think about us in those terms.


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**Meyer Shields**
*Analyst, Keefe, Bruyette & Woods, Inc.*
Q

Okay. Thank you very much.

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**Operator**: Thank you. Our next question is a follow-up from Mike Zaremski with BMO. Your line is open.

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**Michael Zaremski**
*Analyst, BMO Capital Markets Corp.*
Q

Hey. Thanks. Just a quick follow-up in commercial lines. Any puts and takes worth calling out on reserve development in any of the lines?

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

No, nothing – the only reserve change we called out was the personal auto liability driven by New Jersey severities in the 2024 year, but nothing on the commercial lines side.

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**Michael Zaremski**
*Analyst, BMO Capital Markets Corp.*
Q

Thank you.

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**Operator**: Thank you. Our next question is a follow-up from Michael Phillips with Oppenheimer. Your line is open.

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**Michael Phillips**
*Analyst, Oppenheimer & Co., Inc.*
Q

Yeah. Thanks. Just one more, kind of a softer question, John. I guess, given the macro environment and kind of everybody's concerns in what's happening in the world, in the US, have you seen any more pushback recently than normal from insurers or agents that say, hey, you might want to ease up on pricing, given our clients are under pressure, too? Does that change at all in the past couple – past month or so?

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

It hasn't. Now, it's not to suggest it won't. And I think, we continue to see strong exposure change in our commercial lines portfolio. And again, being a predominantly small and middle market player, not that there's not an impact there, but in terms of anticipating an impact, I would say, that hasn't really changed any of the pressure points. And that's not to suggest that there's not some ongoing concern relative to continued increases across the market.

And I think this was the case certainly in personal lines over the last couple of years. And I think it exists where there's some rate fatigue on the part of distribution partners and customers. But I think that's why the focus really needs to be on addressing the underlying causes of the increase in loss costs which are driving pricing. And that's why this focus around litigation abuse is of particular importance and connecting that for customers so they understand what that does to the cost of insurance.

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**Michael Phillips**
*Analyst, Oppenheimer & Co., Inc.*

Q

Okay. Thank you. Makes sense. Appreciate it.

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**Operator**: Thank you. I'm showing no further questions at this time. I'd like to turn the call back over to John for closing remarks.

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

Thank you all for joining us. As always, we appreciate the questions and the participation, and please follow up with Brad if you have anything additional. Thank you.

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**Operator**: Thank you for your participation. This does conclude the program and you may now disconnect. Everyone, have a great day.

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