

# **RBC Capital Markets' Financial Institutions Conference**

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**September 17, 2013**

# Forward Looking Statement

Certain statements in this report, including information incorporated by reference, are “forward-looking statements” as that term is defined in the Private Securities Litigation Reform Act of 1995 (“PSLRA”). The PSLRA provides a safe harbor under the Securities Act of 1933 and the Securities Exchange Act of 1934 for forward-looking statements. These statements relate to our intentions, beliefs, projections, estimations or forecasts of future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, levels of activity, or performance to be materially different from those expressed or implied by the forward-looking statements. In some cases, you can identify forward-looking statements by use of words such as "may," "will," "could," "would," "should," "expect," "plan," "anticipate," "target," "project," "intend," "believe," "estimate," "predict," "potential," "pro forma," "seek," "likely" or "continue" or other comparable terminology. These statements are only predictions, and we can give no assurance that such expectations will prove to be correct. We undertake no obligation, other than as may be required under the federal securities laws, to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Factors, that could cause our actual results to differ materially from those projected, forecasted or estimated by us in forward-looking statements are discussed in further detail in Selective's public filings with the United States Securities and Exchange Commission. These risk factors may not be exhaustive. We operate in a continually changing business environment, and new risk factors emerge from time-to-time. We can neither predict such new risk factors nor can we assess the impact, if any, of such new risk factors on our businesses or the extent to which any factor or combination of factors may cause actual results to differ materially from those expressed or implied in any forward-looking statements in this report. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this report might not occur.

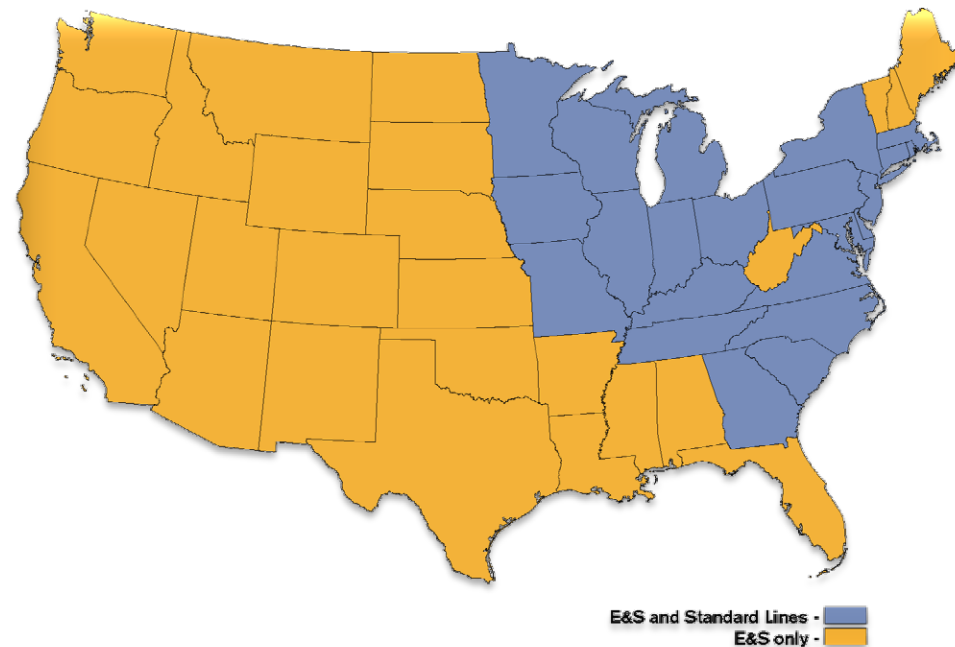


# Foundation for Success

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# Who We Are

- \$1.7B 2012 NPW
- Super-regional carrier
- Unique field model
- Standard lines distributed through independent agents
- Excess & Surplus (E&S) lines distributed through wholesale agents
- History of financial strength



# Business Diversification

## Standard Commercial Lines

- 22 state footprint
- 1,100 independent agency relationships
- Average account size of \$9,000

## Personal Lines

- 13 state footprint
- 620 independent agents
- Agents want joint C/L & P/L markets
- Flood 2012 net income of \$19M

## E&S Contract Binding Authority

- Right time to enter business
- Wholesale agents have controlled binding authority and no claims authority
- Within E&S, lower hazard and dollar limits
- Average policy size of \$2,600

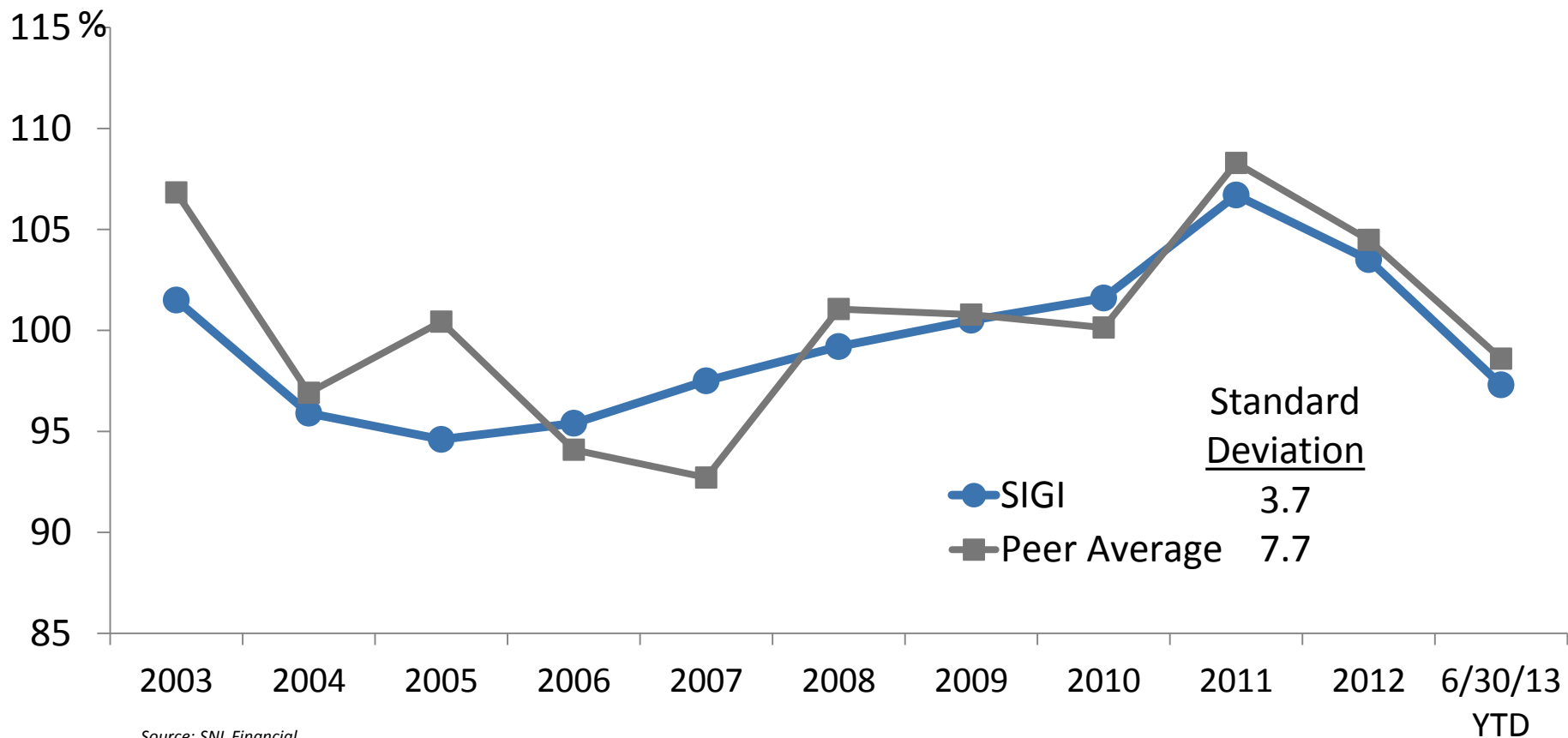


# Financial Strength is our Foundation for Success

- Access to capital markets
  - February 2013 issued \$185 million 5.875% senior notes due 2043
  - Use of proceeds:
    - Called \$100 million 7.5% junior subordinated notes due 2066
    - Balance to fund growth
- Underwriting stability
- Disciplined reserving
- Conservative investments
- Benefits of leverage

# Underwriting Stability

## Statutory Combined Ratio – SIGI vs. Peers



Source: SNL Financial

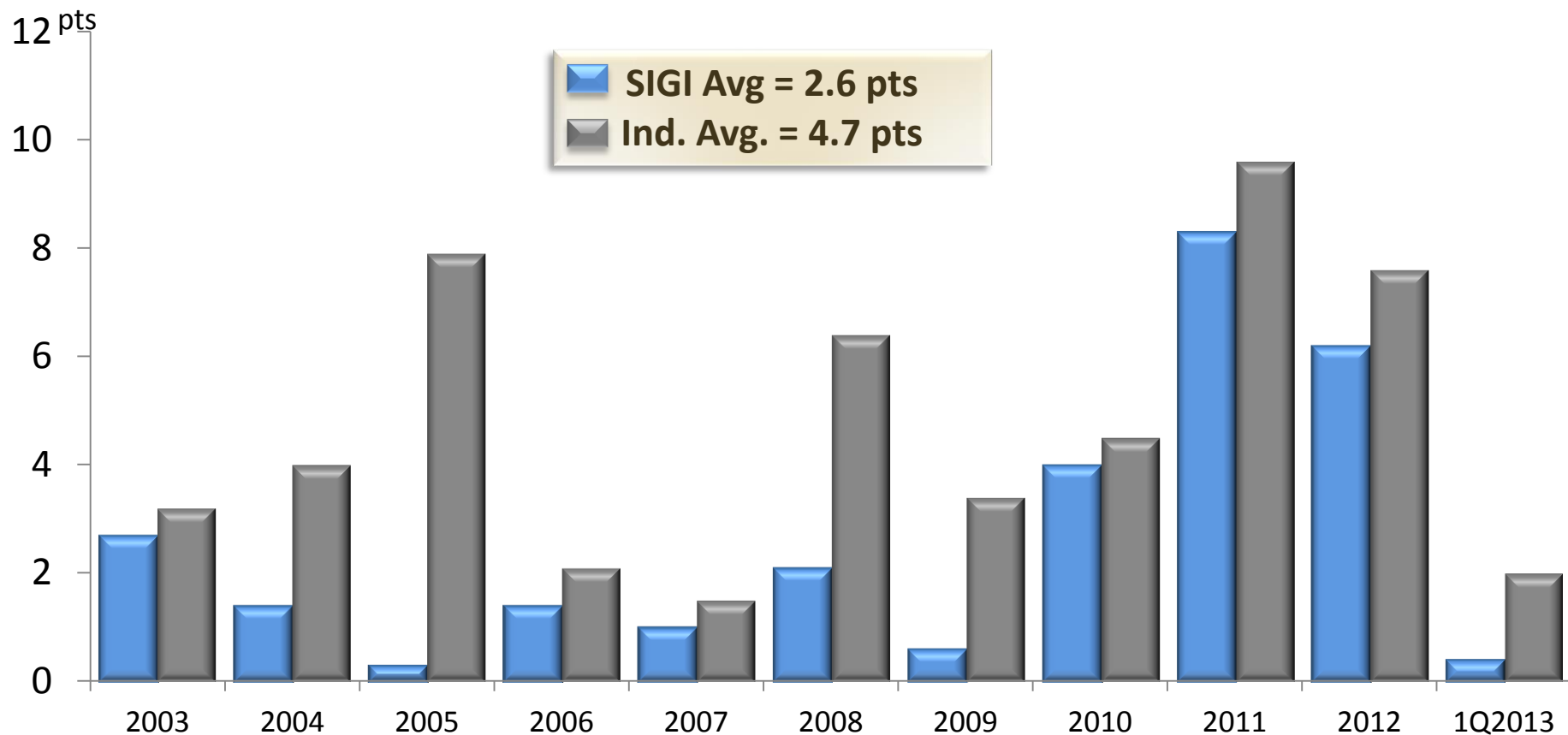
Peers include CINF, THG, STFC, UFCS, CNA, HIG, TRV, WRB

Deviation calculated by averaging the standard deviation of each peer's combined ratio



**SELECTIVE**<sup>®</sup>

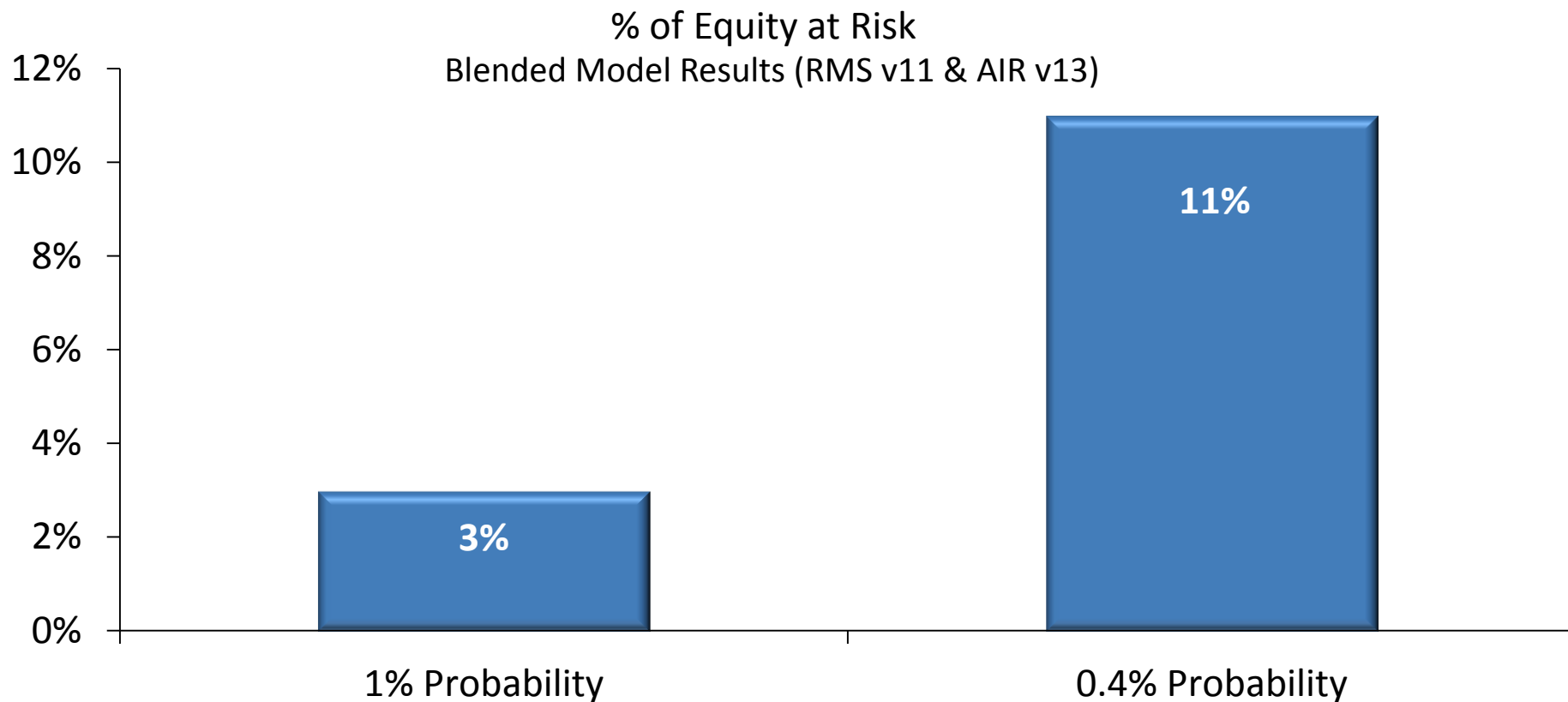
# Impact of CATs on Combined Ratio



Source: AM Best



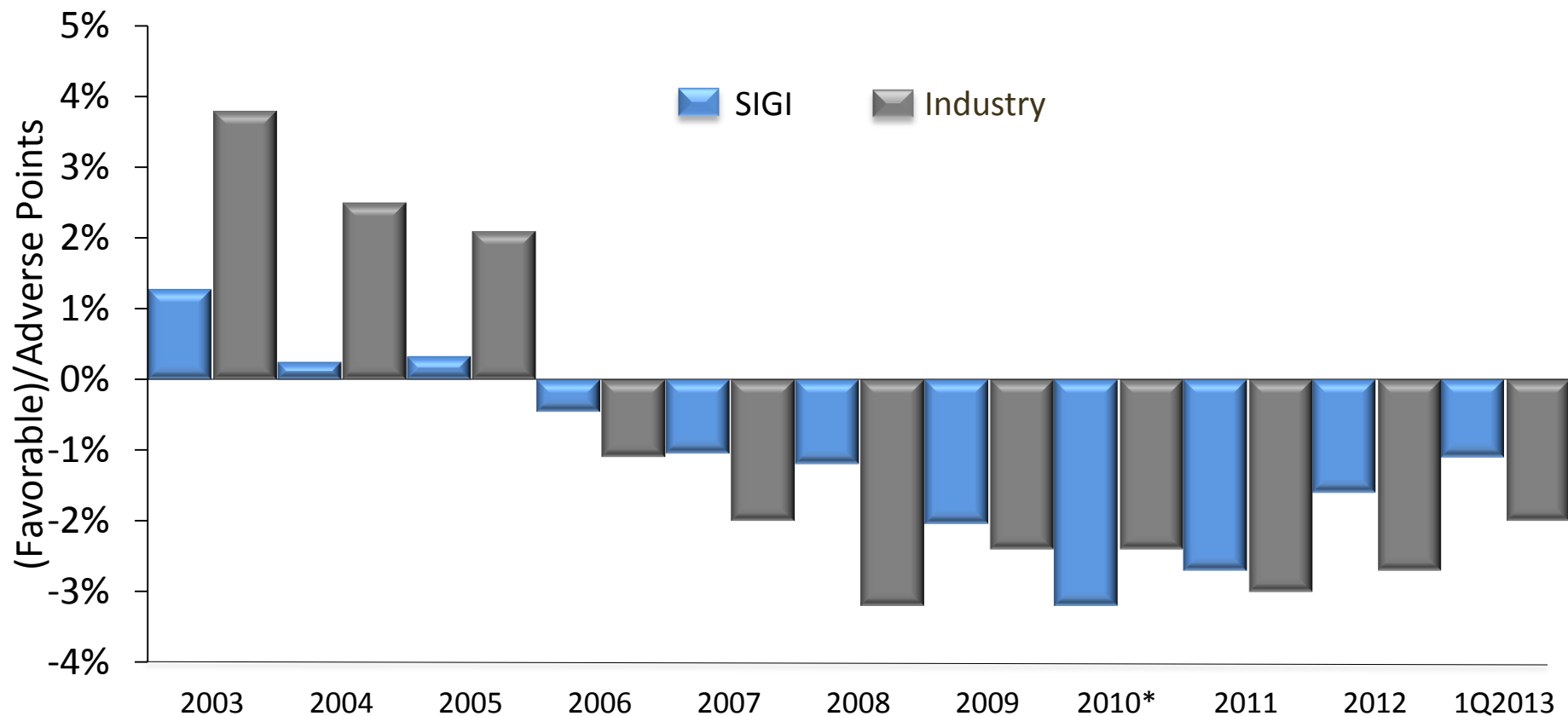
# Conservative Reinsurance Program



**CAT Cover: \$585M in excess of \$40M**

*Percentages are after tax and include applicable reinstatement premium.  
Data as of 7/12; Equity data as of December 31, 2012.*

# Calendar Year Development

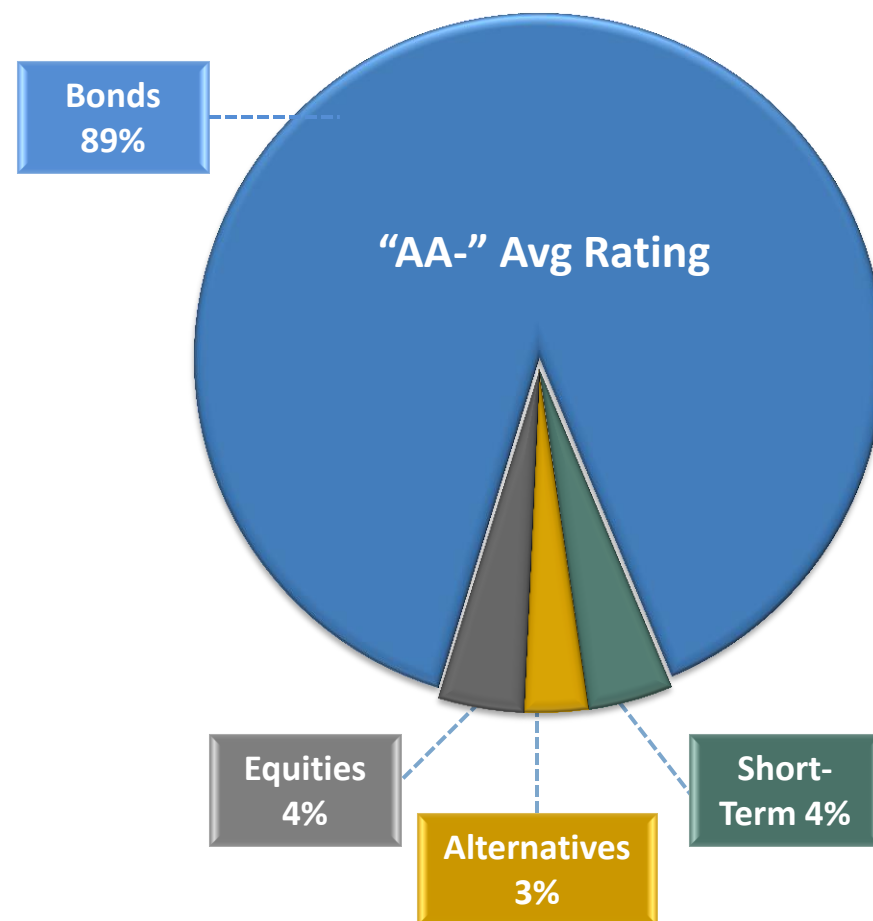


*\*2010 Industry development includes \$4B charge from AIG  
Source: AM Best and Insurance Information Institute  
Note: Industry excluding Mortgage and Financial Guaranty Segments*

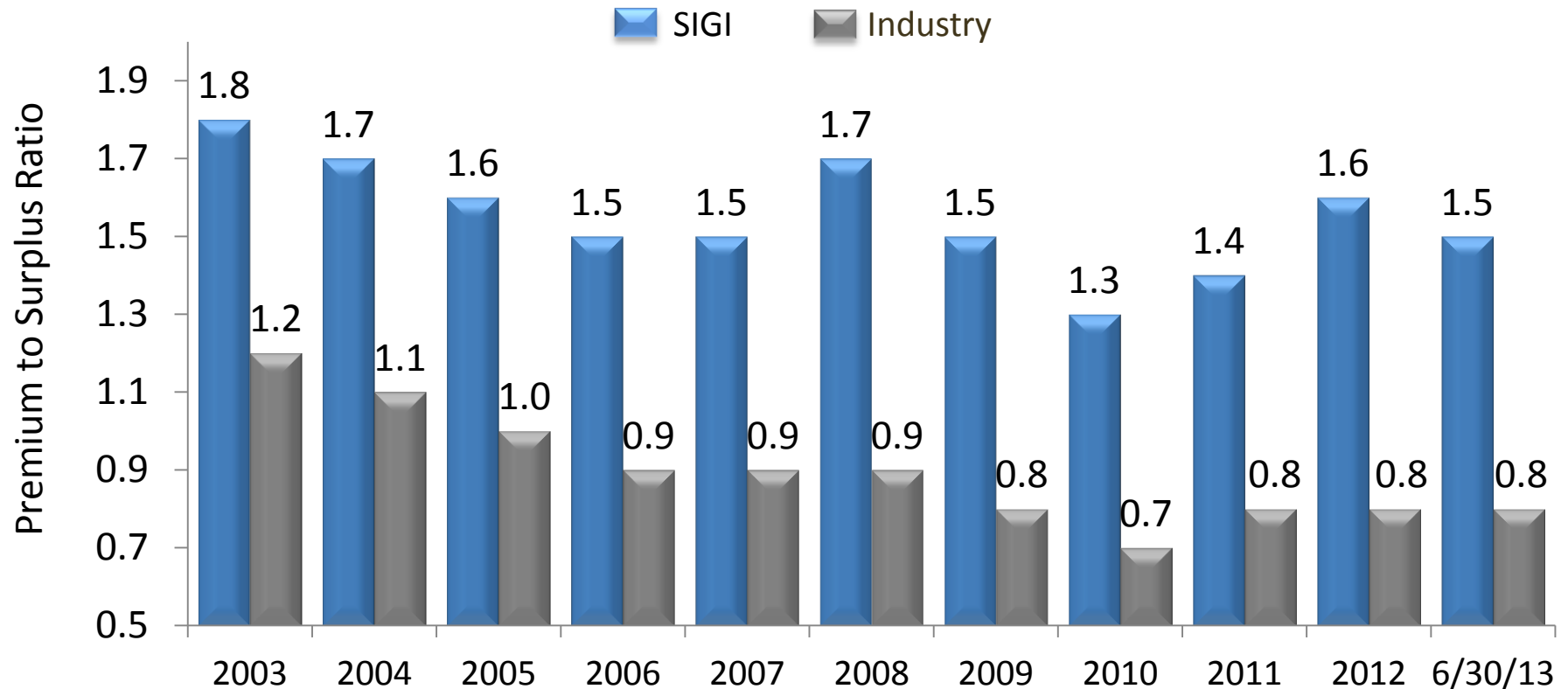
# Conservative Investment Portfolio

- Well diversified, laddered portfolio
- Only 1.5% of bond portfolio rated “BB” & below
- 3.7 year average duration, excluding short-term
- Investment leverage of  $3.97 \times 2.3\% \text{ yield} = \sim 9\% \text{ ROE}$

**\$4.4B Invested Assets  
June 30, 2013**



# Selective's Use of Underwriting Leverage

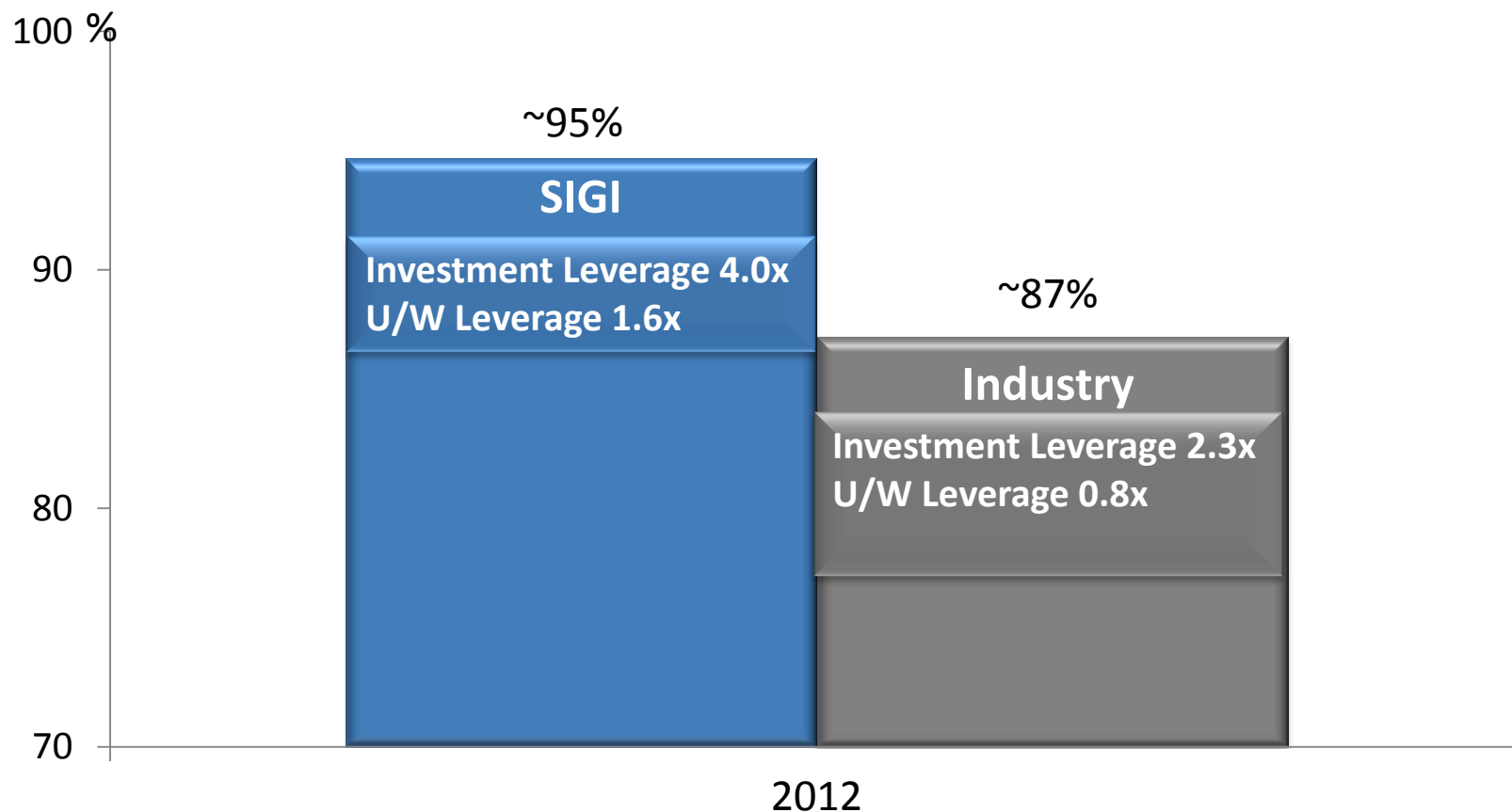


Sources: ISO, AM Best and Insurance Information Institute

Note: Industry excluding Mortgage and Financial Guaranty Segments since 2007

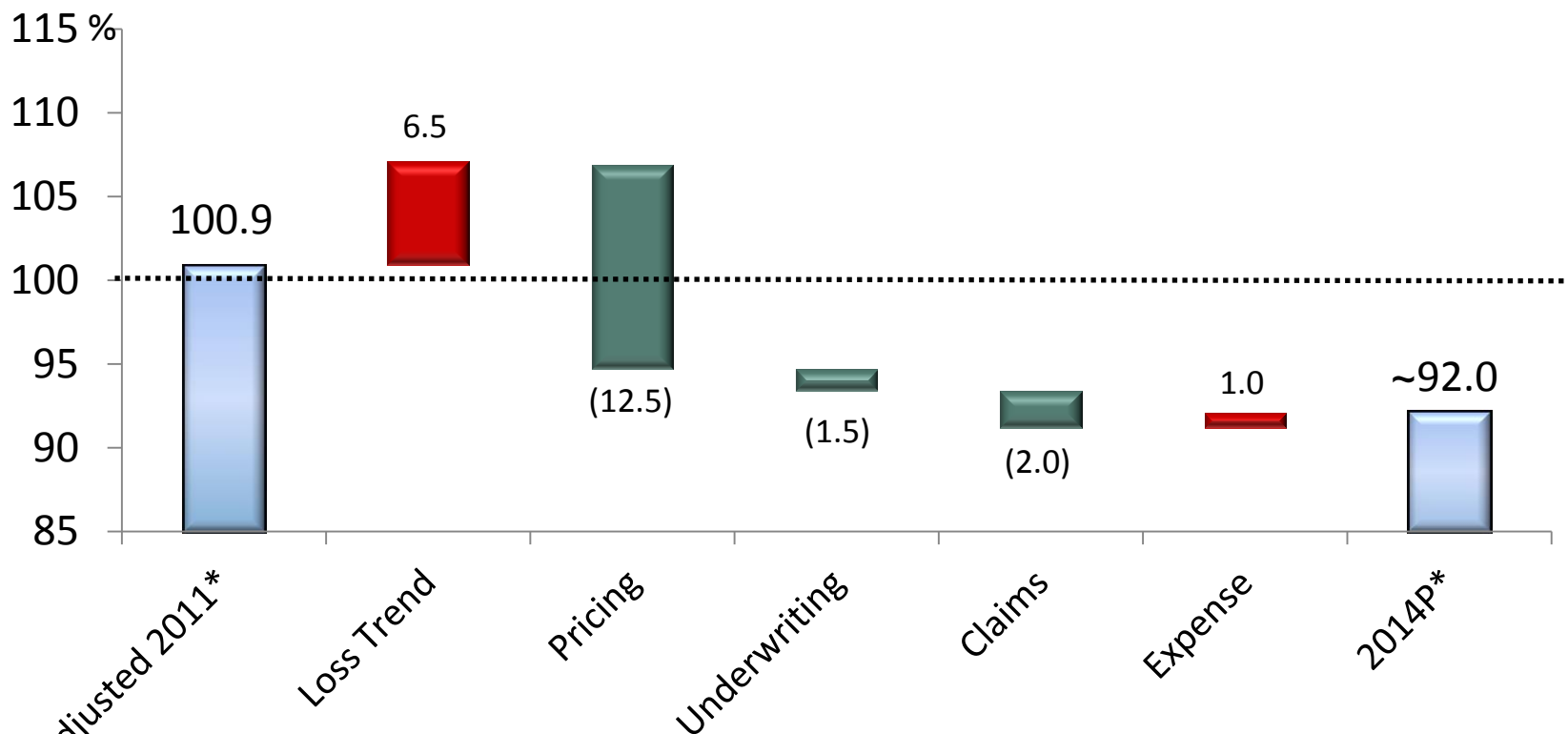
# Impact of Leverage

## Combined Ratio Required for ~12% ROE



Industry Source: AM Best

# Combined Ratio Improvement Plan – On Track to Achieve Goal



**Company expectation for 3 points of CAT losses in 2013 & 2014**

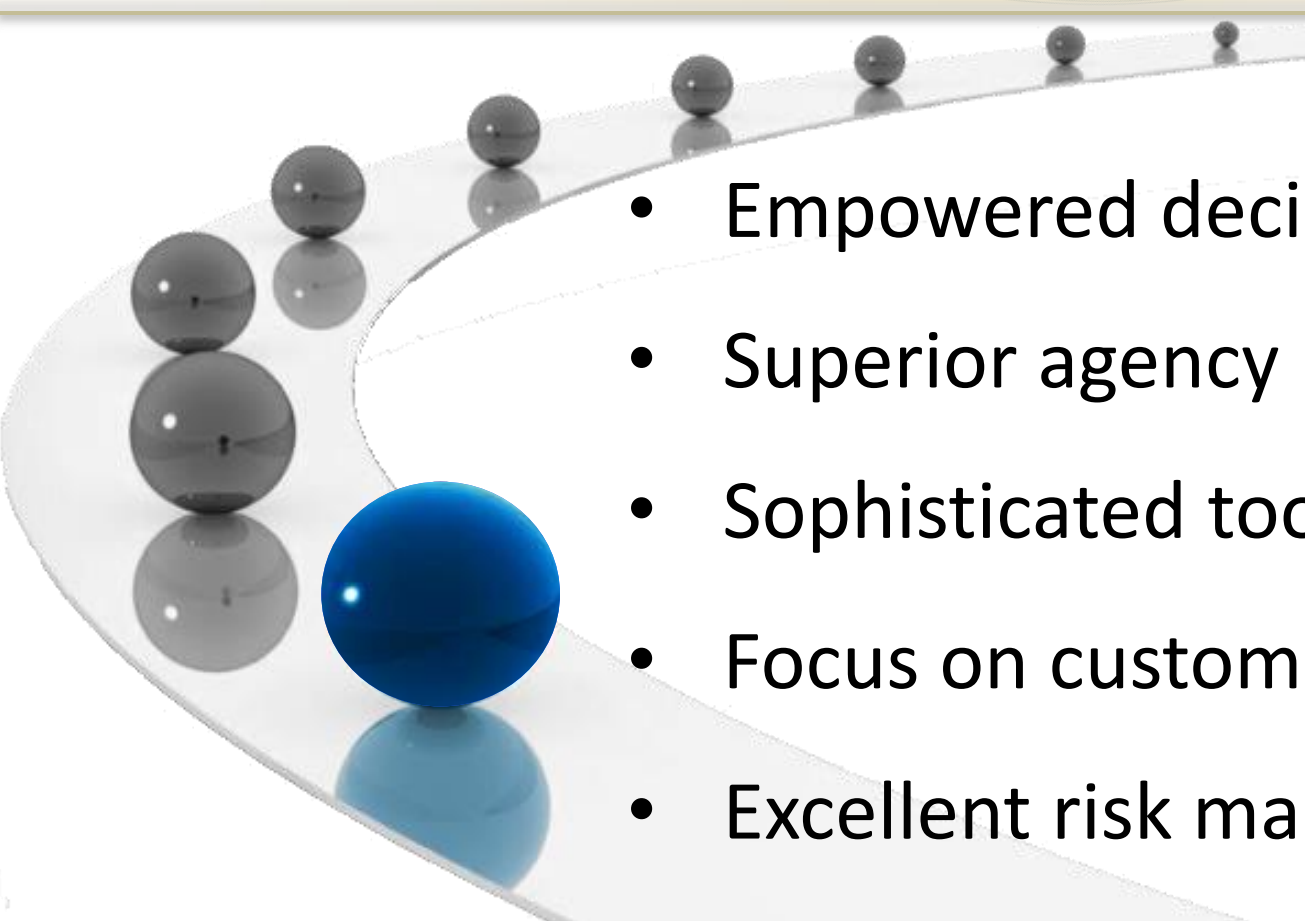
\*Excluding CATS and reserve development



# Strategic Overview

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# What Makes Us Unique

- 
- Empowered decision makers
  - Superior agency relationships
  - Sophisticated tools
  - Focus on customer experience
  - Excellent risk management

Culture of Continuous Improvement

# Relationships with the Highest Caliber Agents

- \$1.4M NPW per agency in 2012
- 8.6/10 on agency survey



- Franchise value
- Greater share of wallet
- Strong feedback loop

# A Regional with National Capabilities

## Capabilities of a National

- Sophisticated pricing
- Fraud and recovery models
- Advanced data and technology

## Nimbleness of a Regional

- Relationships
- Local decision making

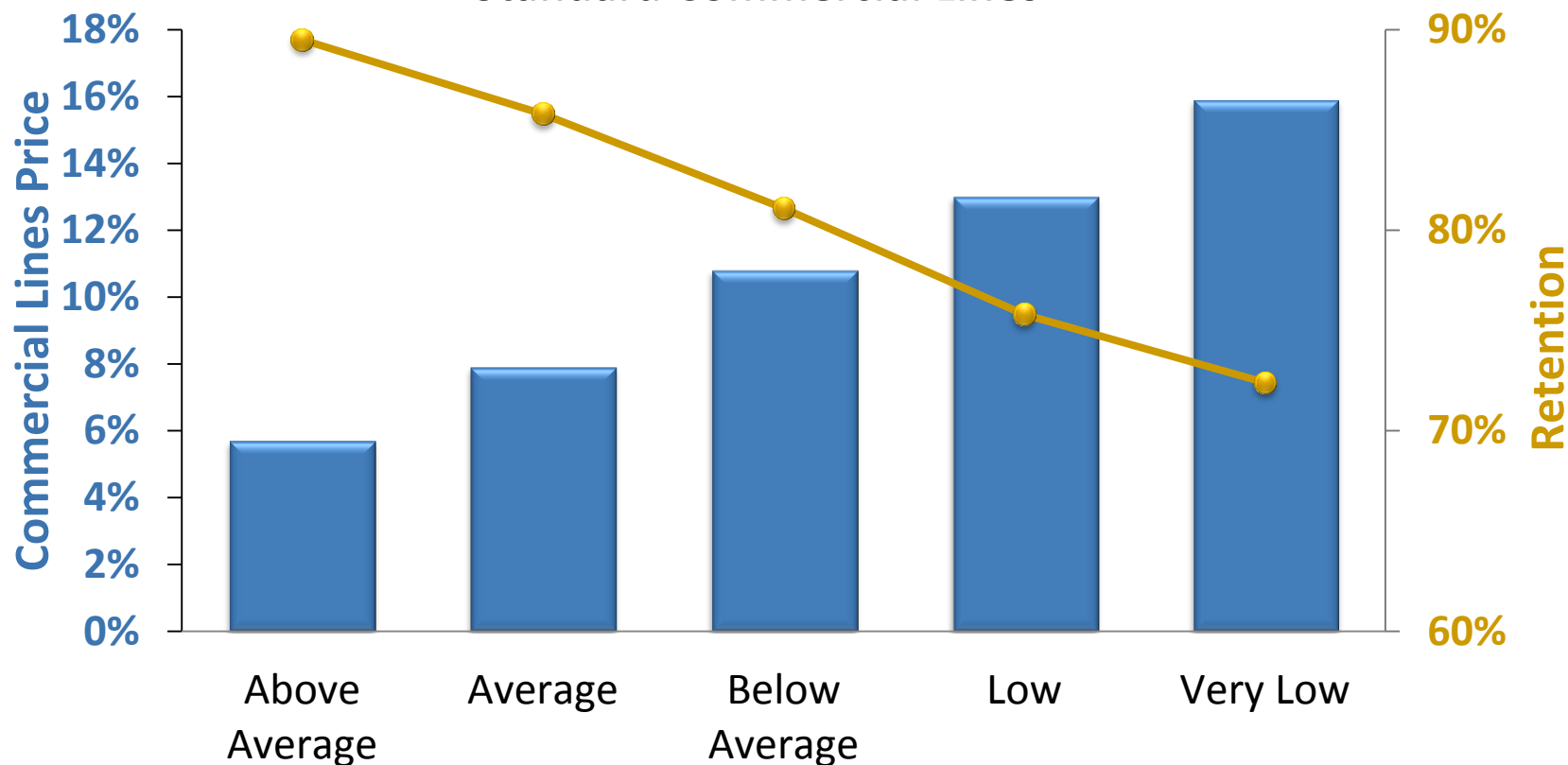
**Selective:  
A Unique  
Super-Regional**

# Pricing Sophistication – Dynamic Portfolio Manager

- ~20 factors driven through DPM generate individual policy guidance and portfolio level impact
  - Line of business and segment strategy
  - CAT modeling
  - Predictive modeling
  - Agency profitability
  - Risk characteristics
  - “What-if” profitability analysis of an underwriter’s book

# Pricing Sophistication – Dynamic Portfolio Manager

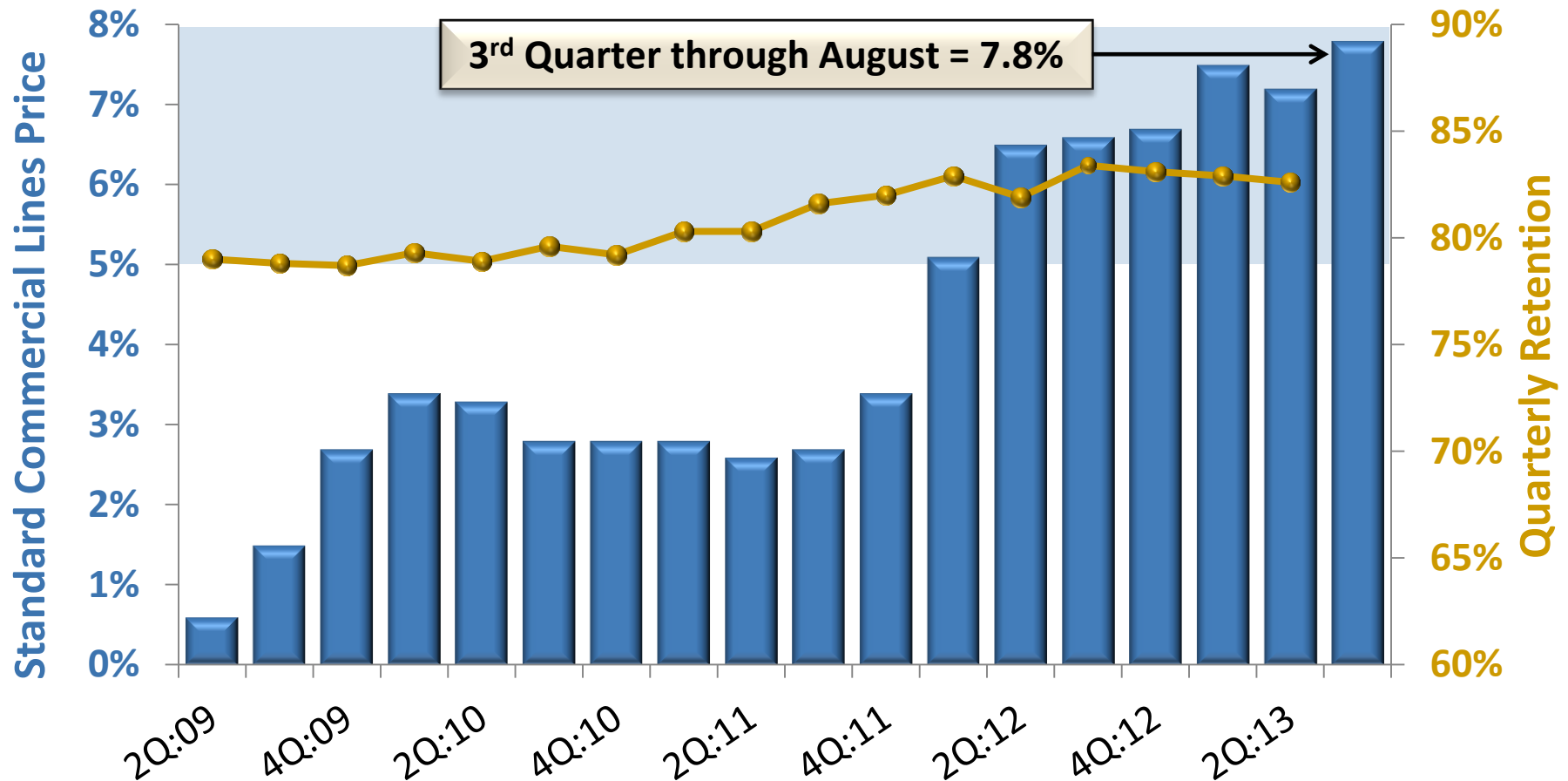
**June 2013 YTD Pricing by Retention Group**  
**Standard Commercial Lines**



**June 2013 YTD Price = 7.3%**



# Relationships Drive Pricing Through the Cycle



**Commercial lines pricing target of 7.6% for 2013**

# Personal Lines Sophistication

## Homeowners

- Increasing rate
- By-peril rating
- Encourage whole account customers



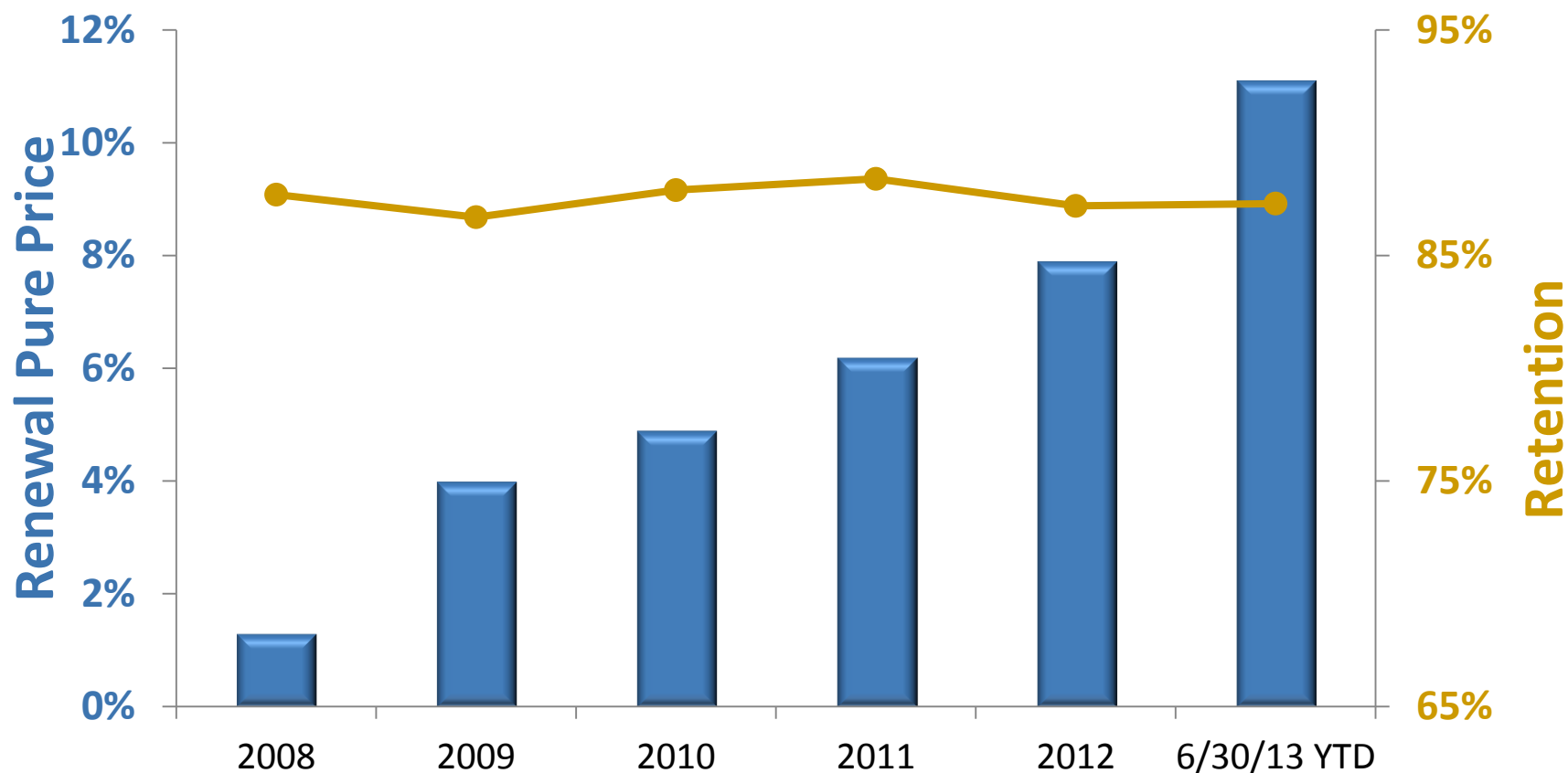
## Auto

- Increasing rate
- Continued mix improvements
- Underwriting restrictions
- Claims initiatives
- Age of book



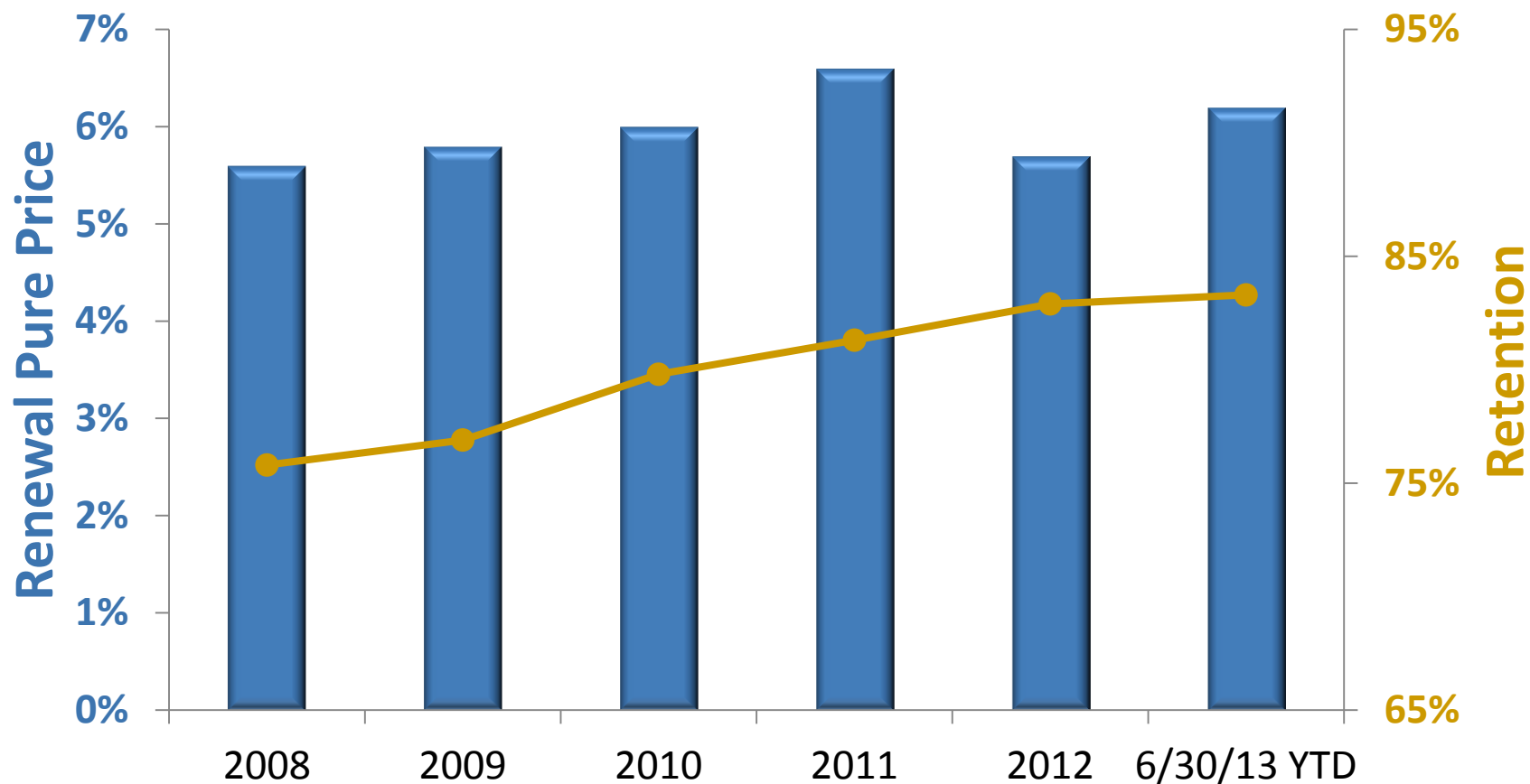
**Anticipate personal lines pricing of approximately 7% in 2013**

# Homeowners Pricing



**Targeting upper-80's combined ratio in normal CAT year**  
**Anticipate pricing of approximately 8.5% in 2013**

# Personal Auto Pricing



**Anticipate pricing of approximately 5.5% in 2013**

# Achieving Better Outcomes in Claims

**Projected  
3 Point  
Loss &  
Expense  
Savings**

- Medical cost containment
- Complex claims unit
- Fraud detection model
- Recovery model
- Litigation management
- Comprehensive data management tools



# Why Invest in Selective?

- Proven ability to manage the market cycle
- Growth at the right time
  - Grew faster and longer in last hard market
- Strong balance sheet limits downside





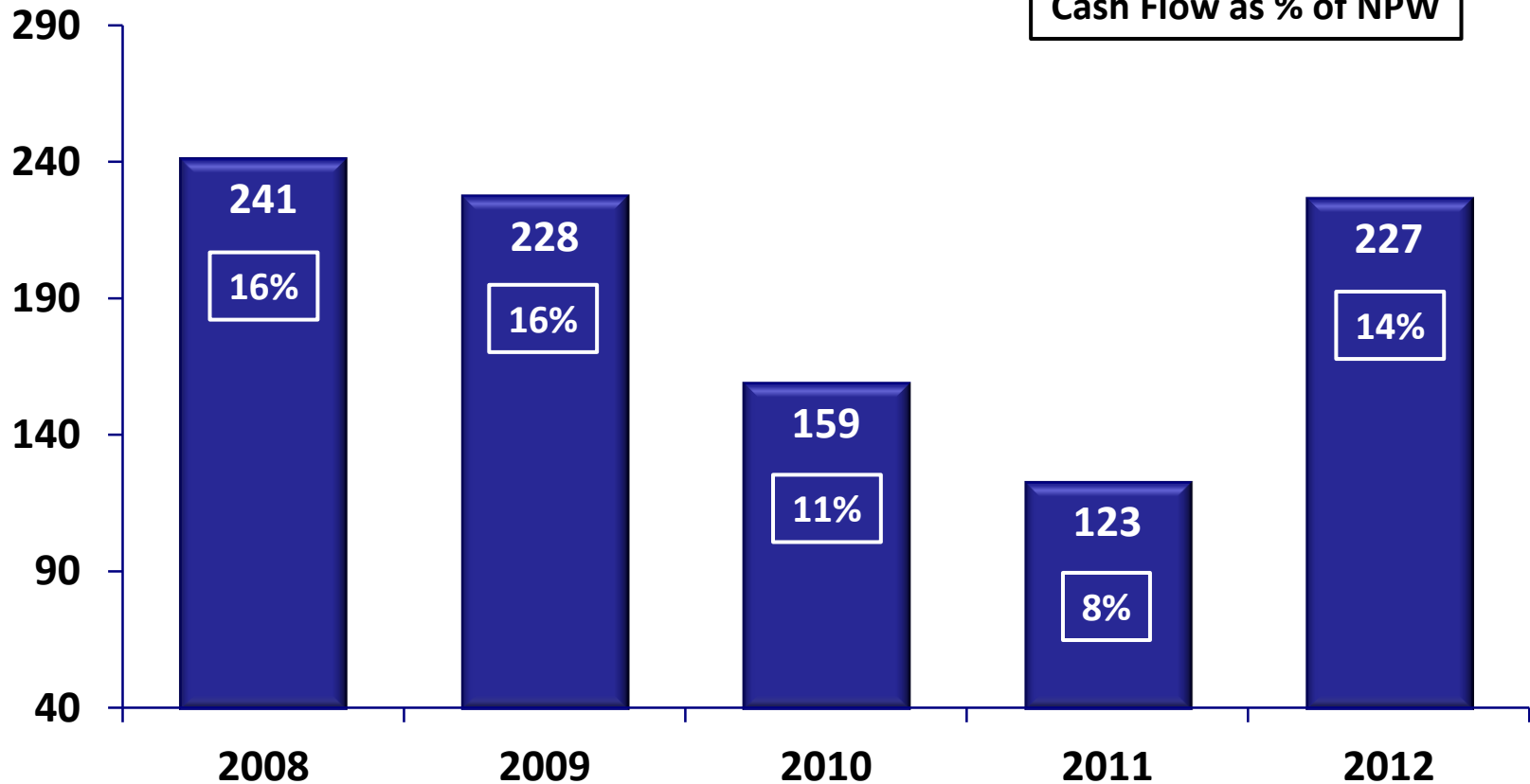
# Financial Highlights 2009 – Q2 2013

	2009	2010	2011	2012	Q1:2013	Q2:2013
<b>Statutory NPW Growth</b>	<b>(4.7)%</b>	<b>(2.3)%</b>	<b>6.8%</b>	<b>12.2%</b>	<b>7.1%</b>	<b>8.6%</b>
<b>Operating EPS*</b>	<b>\$1.39</b>	<b>\$1.38</b>	<b>\$0.38</b>	<b>\$0.58</b>	<b>\$0.36</b>	<b>\$0.42</b>
<b>Net Income per Share*</b>	<b>\$0.68</b>	<b>\$1.23</b>	<b>\$0.40</b>	<b>\$0.68</b>	<b>\$0.38</b>	<b>\$0.48</b>
<b>Dividend per Share</b>	<b>\$0.52</b>	<b>\$0.52</b>	<b>\$0.52</b>	<b>\$0.52</b>	<b>\$0.13</b>	<b>\$0.13</b>
<b>Book Value per Share*</b>	<b>\$17.80</b>	<b>\$18.97</b>	<b>\$19.45</b>	<b>\$19.77</b>	<b>\$20.46</b>	<b>\$19.72</b>
<b>Return on Equity*</b>	<b>4.1%</b>	<b>6.8%</b>	<b>2.1%</b>	<b>3.5%</b>	<b>7.7%</b>	<b>9.7%</b>
<b>Operating Return on Equity*</b>	<b>8.3%</b>	<b>7.7%</b>	<b>2.0%</b>	<b>3.0%</b>	<b>7.2%</b>	<b>8.5%</b>
<b>Statutory Combined Ratio - Total</b>	<b>100.5%</b>	<b>101.6%</b>	<b>106.7%</b>	<b>103.5%</b>	<b>96.8%</b>	<b>97.7%</b>
<b>- Standard Commercial Lines</b>	<b>99.8%</b>	<b>100.8%</b>	<b>103.9%</b>	<b>103.0%</b>	<b>97.6%</b>	<b>95.6%</b>
<b>- Standard Personal Lines</b>	<b>104.4%</b>	<b>106.4%</b>	<b>117.3%</b>	<b>100.7%</b>	<b>92.4%</b>	<b>102.9%</b>
<b>- Excess and Surplus Lines</b>	<b>NA</b>	<b>NA</b>	<b>131.3%</b>	<b>118.8%</b>	<b>98.2%</b>	<b>106.8%</b>
<b>GAAP Combined Ratio – Total*</b>	<b>99.9%</b>	<b>101.4%</b>	<b>107.2%</b>	<b>104.0%</b>	<b>97.1%</b>	<b>98.9%</b>
<b>- Standard Commercial Lines*</b>	<b>98.8%</b>	<b>100.0%</b>	<b>104.3%</b>	<b>103.3%</b>	<b>98.1%</b>	<b>97.0%</b>
<b>- Standard Personal Lines*</b>	<b>105.6%</b>	<b>108.3%</b>	<b>117.8%</b>	<b>101.3%</b>	<b>91.8%</b>	<b>104.0%</b>
<b>- Excess and Surplus Lines*</b>	<b>NA</b>	<b>NA</b>	<b>270.2%</b>	<b>124.7%</b>	<b>99.7%</b>	<b>107.6%</b>

*\*Historical values (2009-2011) have been restated to reflect impact of deferred policy acquisition cost accounting change*

# Net Operating Cash Flow

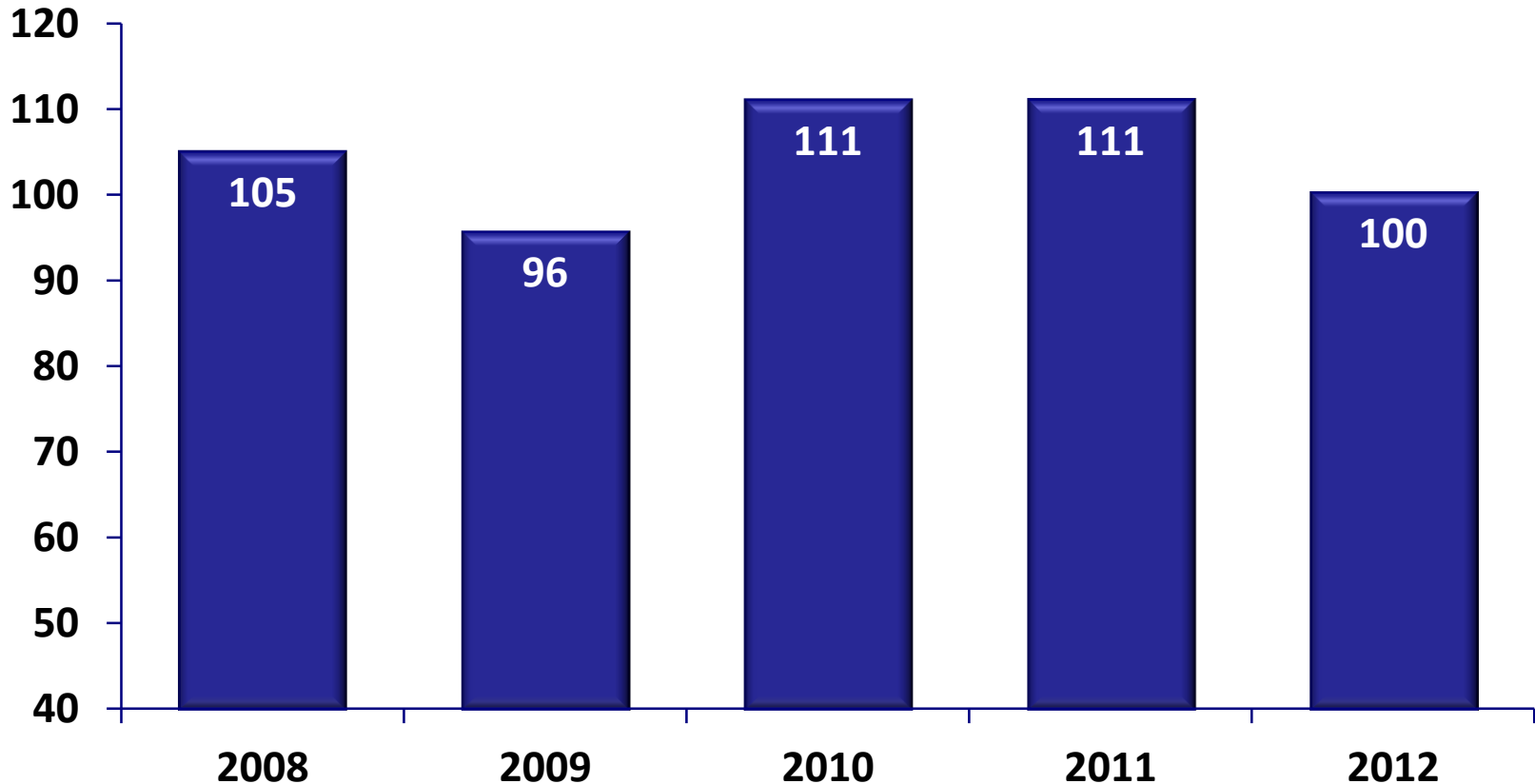
(\$ in millions)



YTD June 2013: \$98M

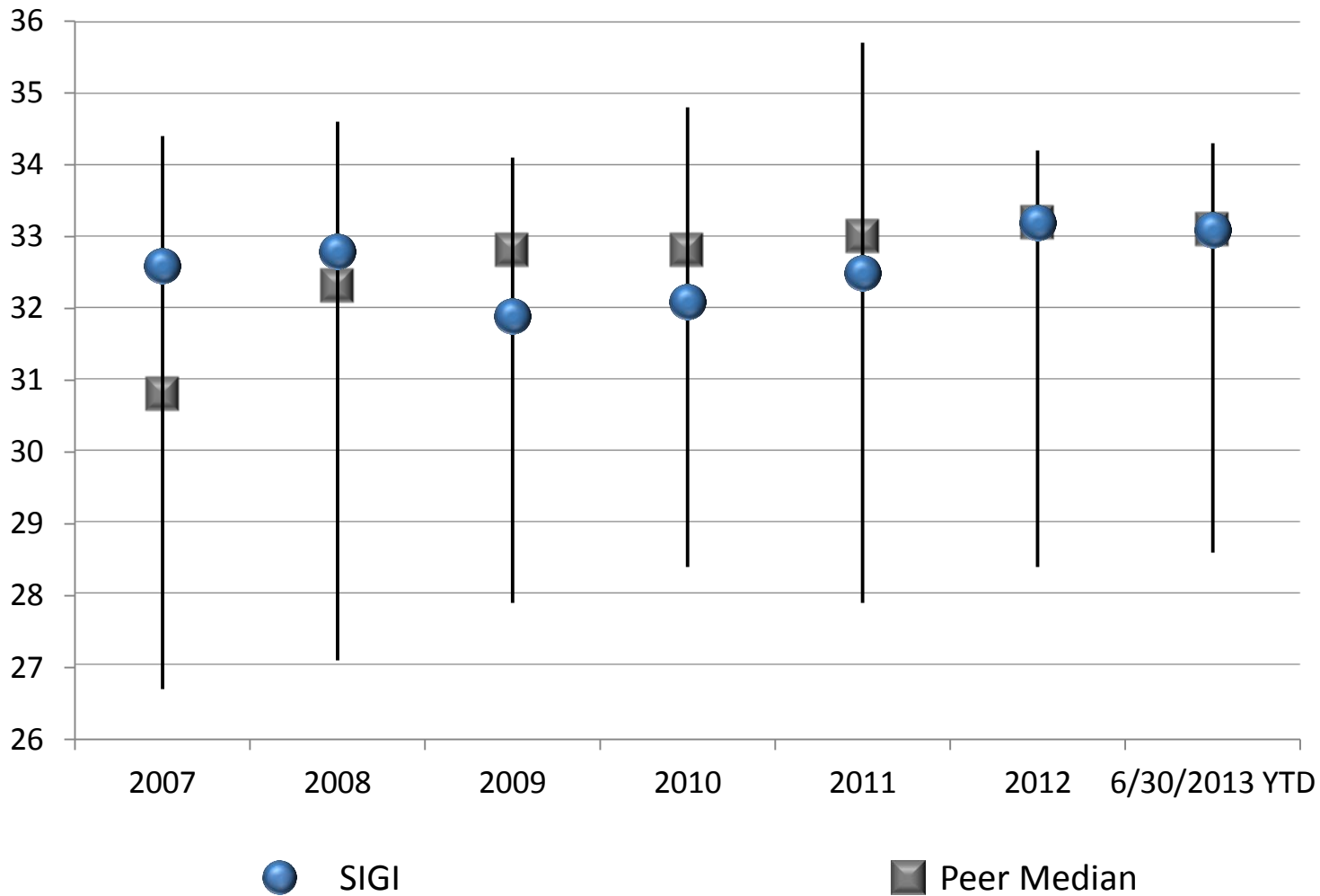
# Investment Income – After-tax

(\$ in millions)



YTD June 2013: \$51M

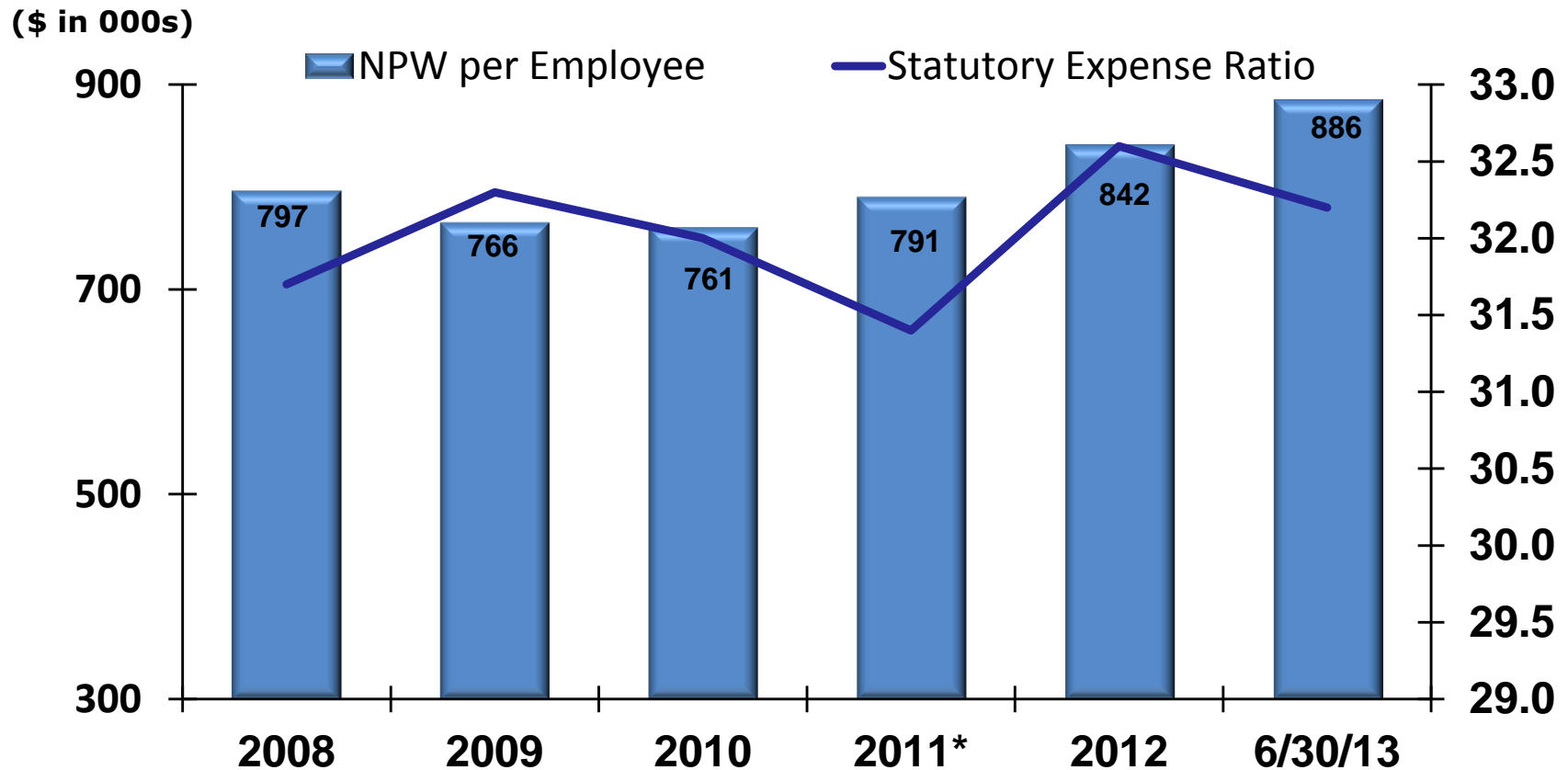
# Focus on Expense Management



Source: SNL Financial

Note: Expense Ratio including Dividends

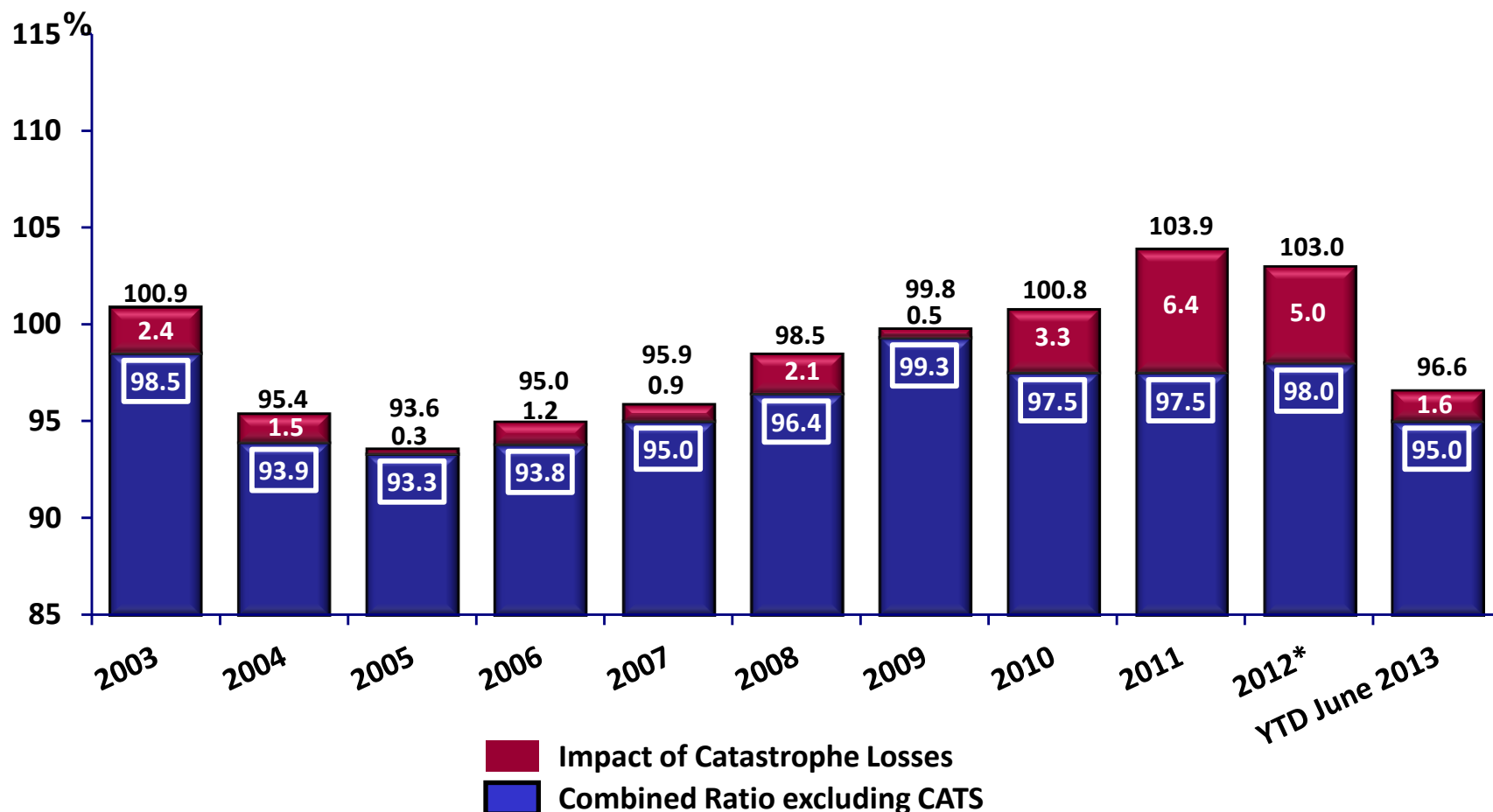
# Insurance Operations Productivity



*\*Excludes Excess & Surplus Lines*

# Standard Commercial Lines Profitability

## Statutory Combined Ratios



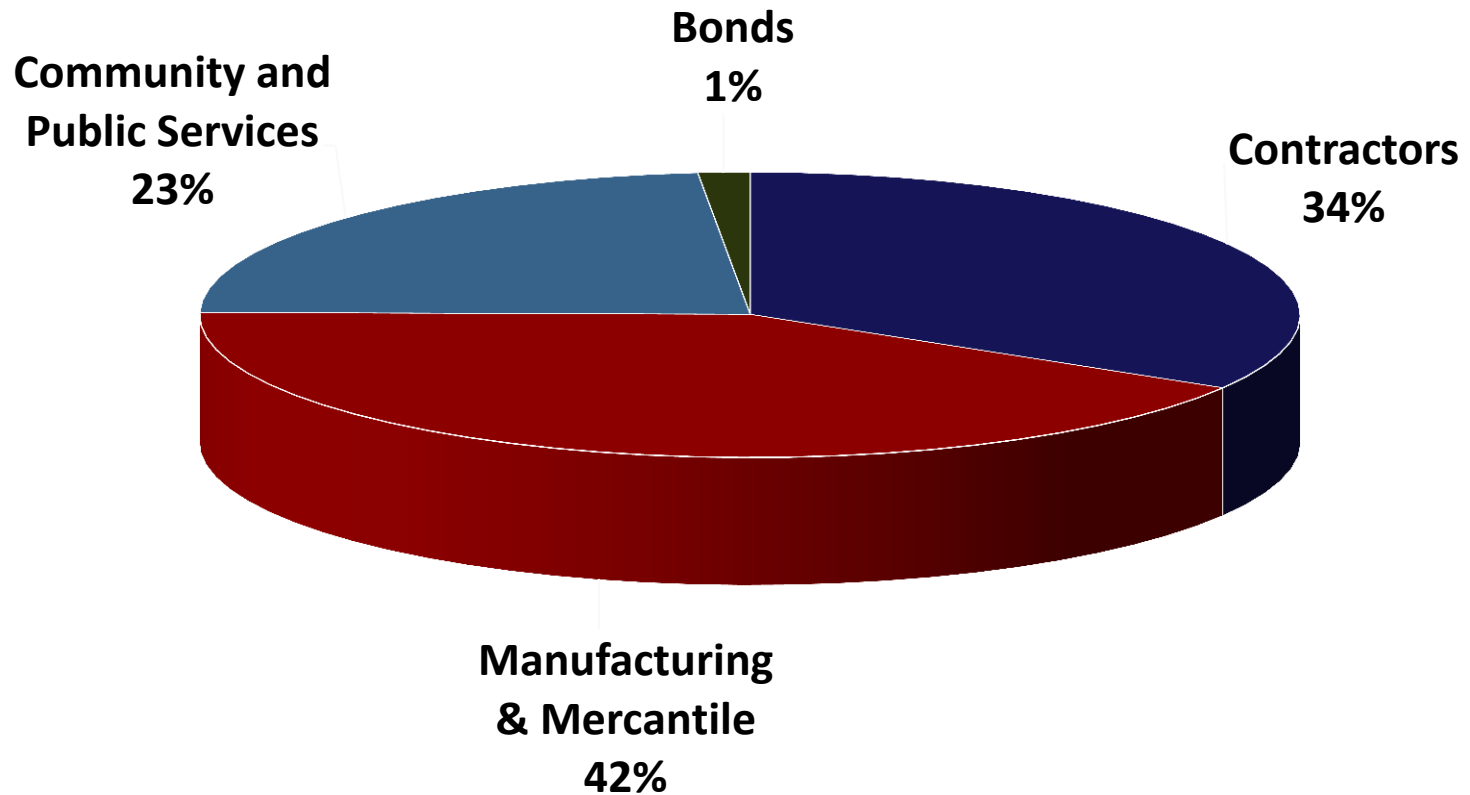
*\*Includes impact of reinstatement premium on catastrophe reinsurance program as a result of Hurricane Sandy*



# Premium by Strategic Business Unit

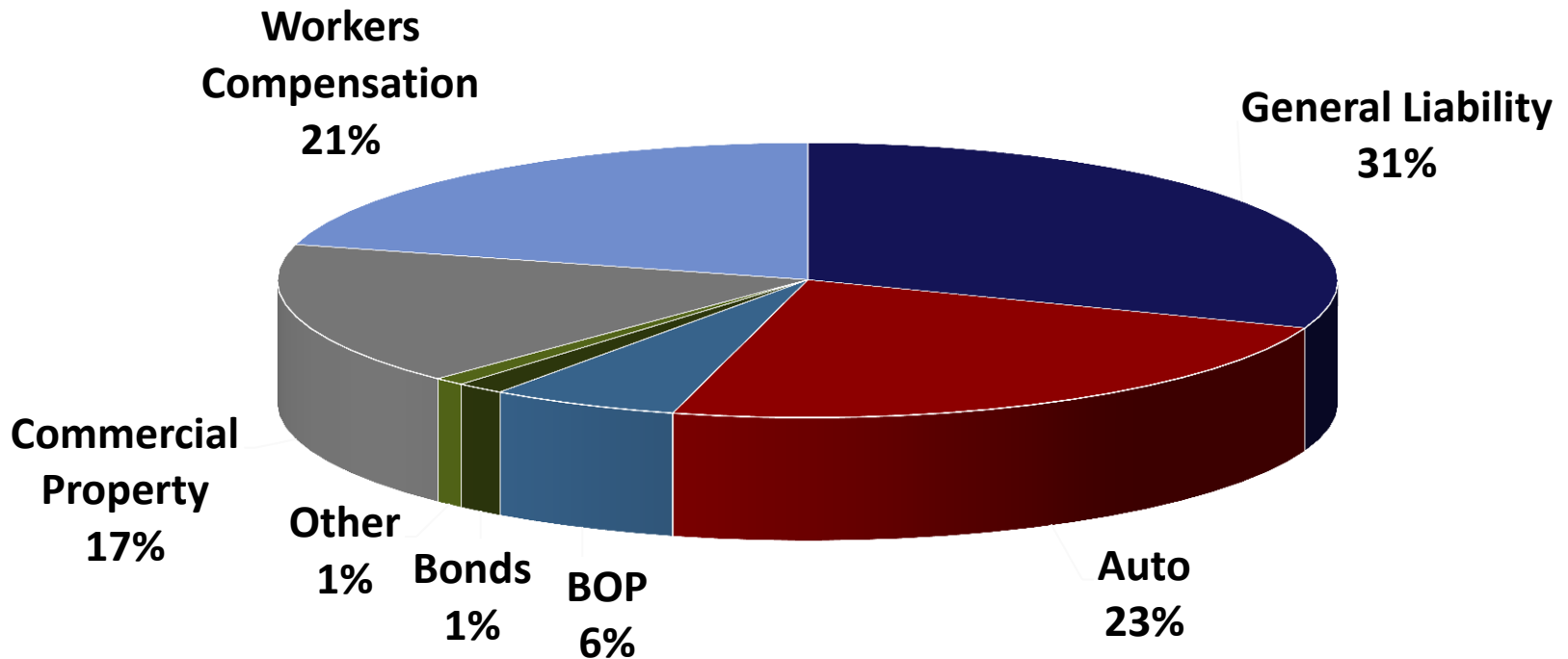
## 2012 Standard Commercial Lines

### Direct Premium Written

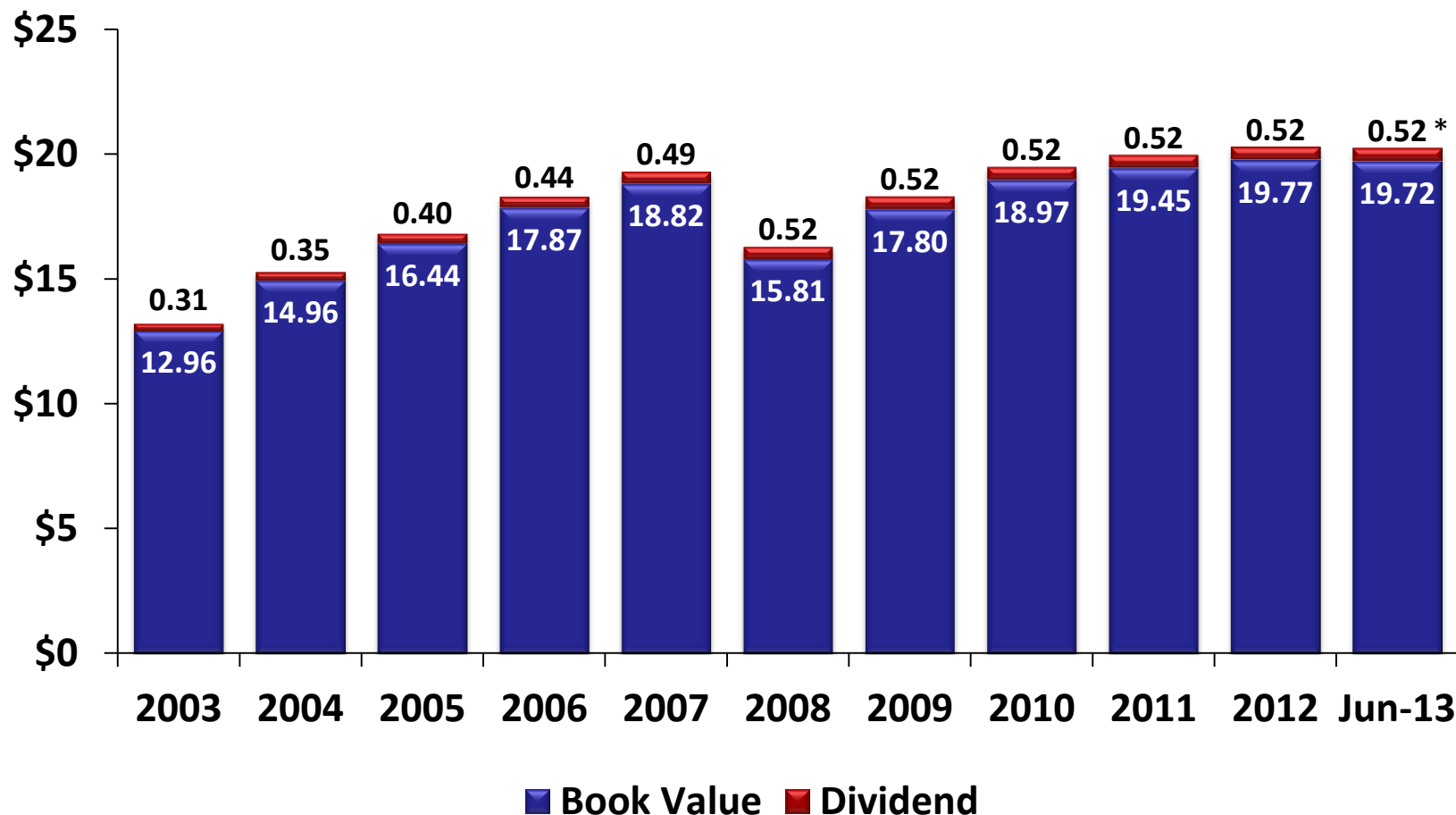


# Premium by Line of Business

## 2012 Standard Commercial Lines Net Premium Written



# Long-Term Shareholder Value Creation



\*Annualized indicated dividend

Note: Book value restated for change in deferred policy acquisition costs (2003-2006 Estimated)