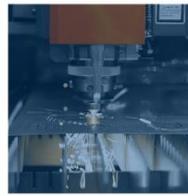


# Selective Insurance Group, Inc.

2017 Bank of America Merrill Lynch Insurance Conference

FEBRUARY 2017



SELECTIVE®

# SAFE HARBOR STATEMENT

In this presentation, we make certain statements and reference other information that are “forward-looking statements” as 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 that relate to our intentions, beliefs, projections, estimations, or forecasts of future events or our future financial performance. Forward-looking statements involve known and unknown risks, uncertainties, and other factors that may result in materially differing actual results. We can give no assurance that our expectations expressed in forward-looking statements will prove to be correct.

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. We undertake no obligation to publicly update or revise any forward-looking statements – whether as a result of new information, future events or otherwise – other than as the federal securities laws may require.

This presentation also includes certain non-GAAP financial measures within the meaning of Regulation G, including “operating earnings per share,” “operating income,” and “operating return on equity.” Definitions of these non-GAAP measures and a reconciliation to the most comparable GAAP figures pursuant to Regulation G are available in our Annual Report on Form 10-K and our Supplemental Investor Package, Fourth Quarter and Full Year 2016, which can be found on our website <[www.selective.com](http://www.selective.com)> under “Investors/Reports, Earnings and Presentations.” We believe investors and other interested persons find these measurements beneficial and useful. We have consistently provided these financial measurements in previous investor communications so they have a consistent basis for comparing our results between quarters and with our industry competitors. These non-GAAP measures, however, may not be comparable to similarly titled measures used outside of the insurance industry. Investors are cautioned not to place undue reliance on these non-GAAP measures in assessing our overall financial performance.



**SELECTIVE<sup>®</sup>**

## **STRATEGIC OVERVIEW**

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**GREG MURPHY**

Chairman and Chief Executive Officer

# BEST SUPER REGIONAL COMPANY

- Super-regional P&C company with capabilities of a national carrier
- Long history of financial strength, superior execution, and disciplined growth
- Strong customer-centric focus

## SUSTAINABLE COMPETITIVE ADVANTAGES:

- **True franchise value** with “ivy league” distribution partners
- **Unique field model** coupled with sophisticated underwriting and claims tools
- **Superior customer experience** delivered by best in class employees

## 2016 NET PREMIUMS WRITTEN

78%

Standard Commercial

13%

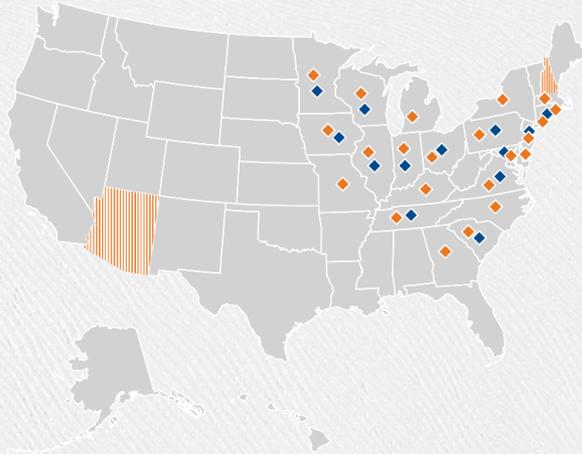
Standard Personal

9%

Excess & Surplus

# TRUE FRANCHISE VALUE WITH DISTRIBUTION PARTNERS

- Standard Commercial
- Standard Personal  
\*Flood insurance available in all 50 states.
- Geo-Expansion
- Excess & Surplus



- High franchise value:
  - Standard Commercial: **1,180 agents**
  - Standard Personal: **710 agents**
  - Excess & Surplus: **80 wholesale general agents**
- Franchise model helps obtain above industry average pricing while balancing retention and growth targets
- Standard lines NPW per agent of \$1.7 million

## Long Term Commercial Lines Distribution Goal:

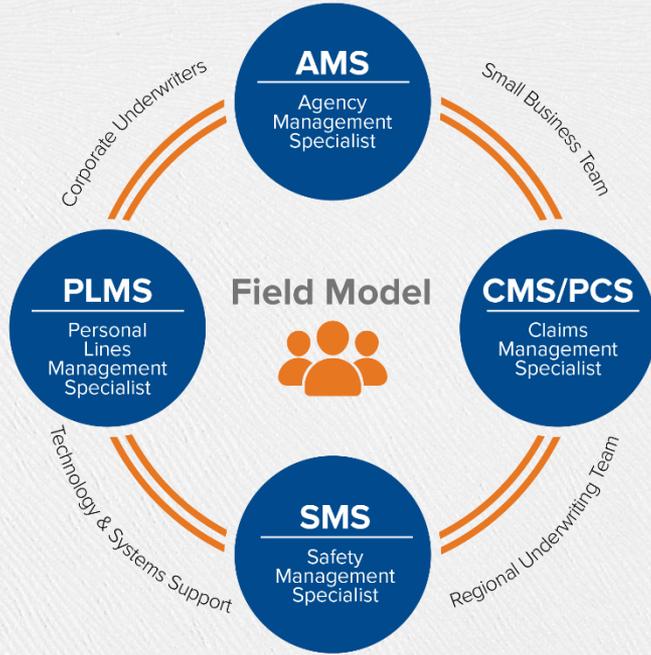
25% Agent market share

12% Agency share of wallet



3% Market share in current footprint

# UNIQUE FIELD MODEL



- Responsive, field-based model:
  - ~105 Agency Management Specialists
  - ~15 Personal Lines Marketing Specialists
  - ~115 Claims Management Specialists
  - ~80 Safety Management Specialists
- Focused on delivering best-in-class customer service
- Armed with sophisticated underwriting and claims tools

An empowered field model equipped with sophisticated tools is the cornerstone of our “High-tech High-touch” business strategy

# SUPERIOR CUSTOMER EXPERIENCE

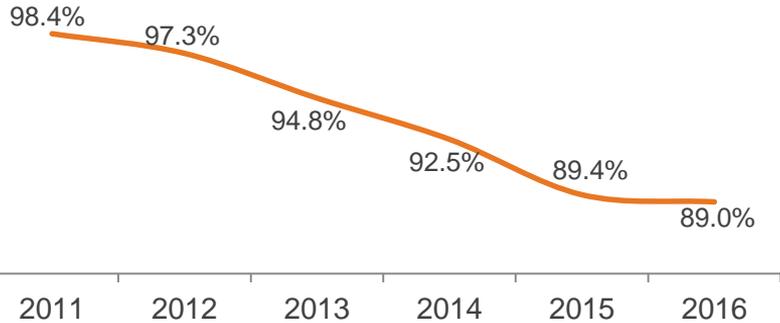


- A personalized and customer-centric focus has been the centerpiece of our strategy since our founding
- Investing in omni-channel experience, a potential game changer in an industry that has been slow to adopt change
- Focus on driving increased customer loyalty and retention
- Franchise value is a competitive advantage for agency adoption

Customer-centricity is critical for long-term success

# 2016: SELECTIVE'S MOST PROFITABLE YEAR

## Statutory Combined Ratio (ex-CAT)



### Original ex-CAT Guidance

2011	2012	2013	2014	2015	2016
101.0% - 102.0%	101.5%	96.0%	92.0%	91.0%	91.0%

- Underlying statutory combined ratio of 92.2% in 2016
- Pursuing price increases in each of our segments
- Claims and underwriting improvements
- Focus on lowering expense ratio

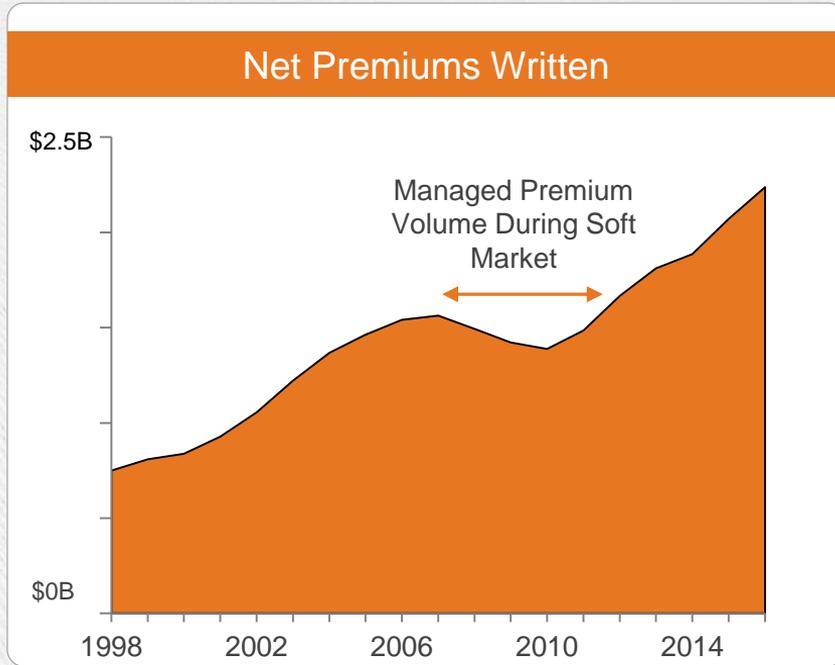
## Overall Statutory Combined Ratios

2015	2016	Improvement
<b>92.4%</b>	<b>91.8%</b>	<b>0.6 pts</b>

Guidance as of February 2, 2017

2017 guidance for an underlying statutory combined ratio of 90.5% for a 1.7 point margin improvement

# LONG HISTORY OF DISCIPLINED & PROFITABLE TOP LINE GROWTH

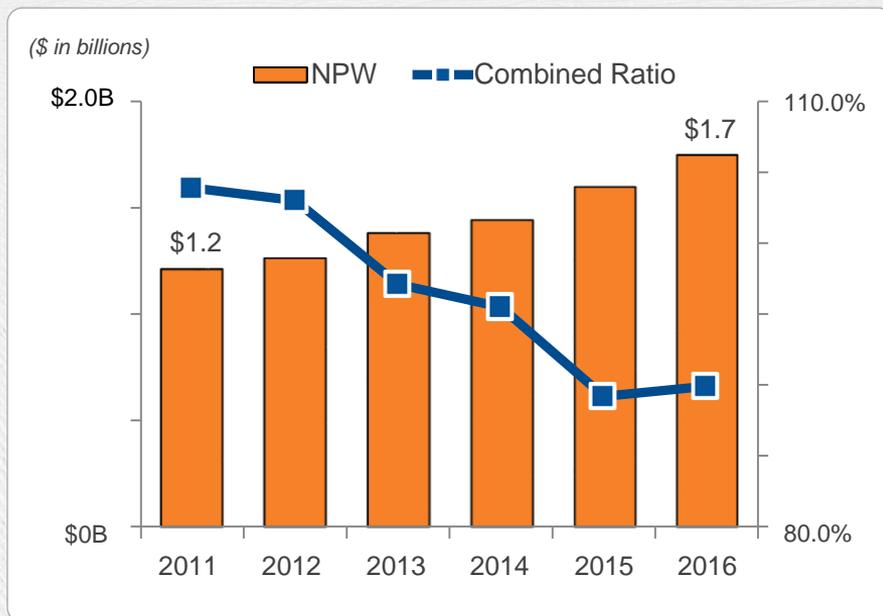


## GROWTH DRIVERS:

- Unique field model
- True franchise value with “ivy league” distribution partners
- Growing share of wallet
- New agent appointments
- Expansion in E&S

Long track record of cycle management and profitable growth

# STANDARD COMMERCIAL LINES: A PROFIT ENGINE



## ■ GROWTH DRIVERS:

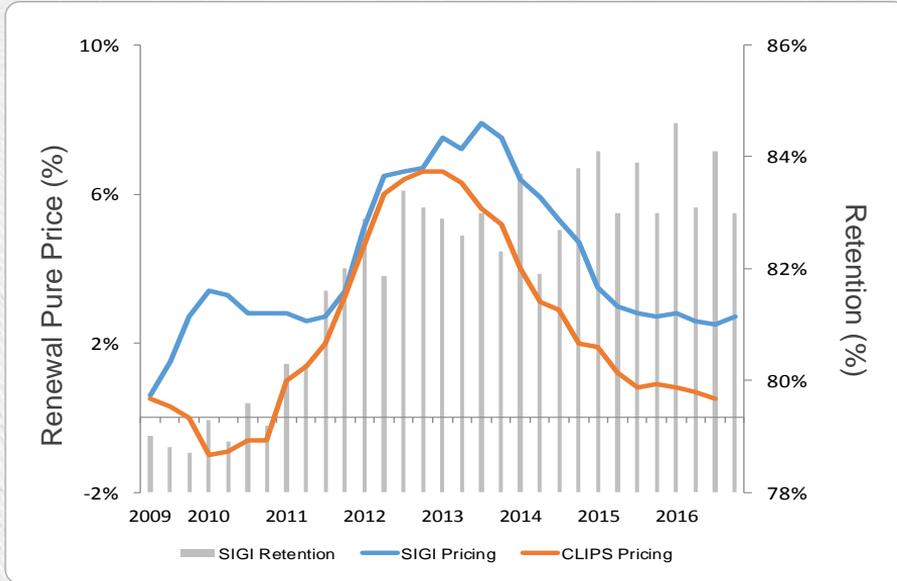
- AMS territory additions
- Small business teams
- New business capacity per AMS

## ■ PROFITABILITY DRIVERS:

- Underwriting improvements
- Enhanced claims processes
- Price increases that exceeded loss costs

Selective has the right tools, technology and team in place to continue driving profitable growth in standard Commercial Lines

# PRICE INCREASES HAVE SIGNIFICANTLY OUTPERFORMED INDUSTRY AVERAGES



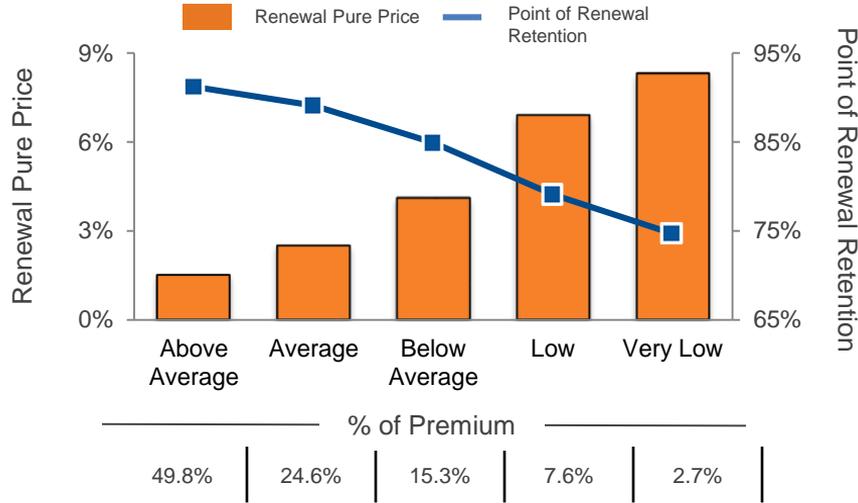
CLIPS: Willis Towers Watson Commercial Lines Insurance Pricing Survey

- Commercial Lines price increases have cumulatively outperformed the CLIPS index by 1,700 points since 2009
- Ability to get price is reflective of our:
  - Dynamic Portfolio Manager (DPM)
  - Renewal portfolio meetings
  - Strong technical underwriting capabilities
  - Value through claims/safety management initiatives, etc.

Commercial Lines renewal pure price increases averaged 2.6% in 2016 and 2.4% in January 2017

# SOPHISTICATED PRICING TOOLS

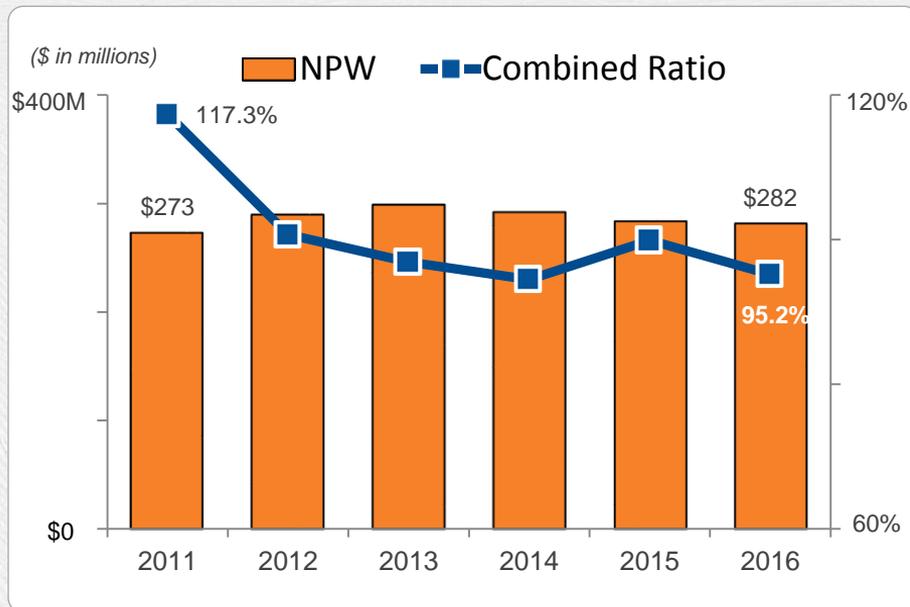
## Commercial Lines Pricing By Retention Group



- Commercial Lines Dynamic Portfolio Manager (DPM) tool considers:
  - Average diamond score
  - Relative loss frequency and severity
  - Pricing deviation
  - Hazard and segment considerations
- The DPM provides for granular account-specific pricing and the correlated impact of each action on the overall portfolio
- DPM output is closely aligned with goals for individual underwriters and regions

Selective's pricing tools allow the company to analyze and price business on a very granular level—a key advantage—that has enabled outperformance

# PERSONAL LINES: A PROFITABLE YEAR BUT GREATER FOCUS ON AUTO MARGINS



## HOMEOWNERS

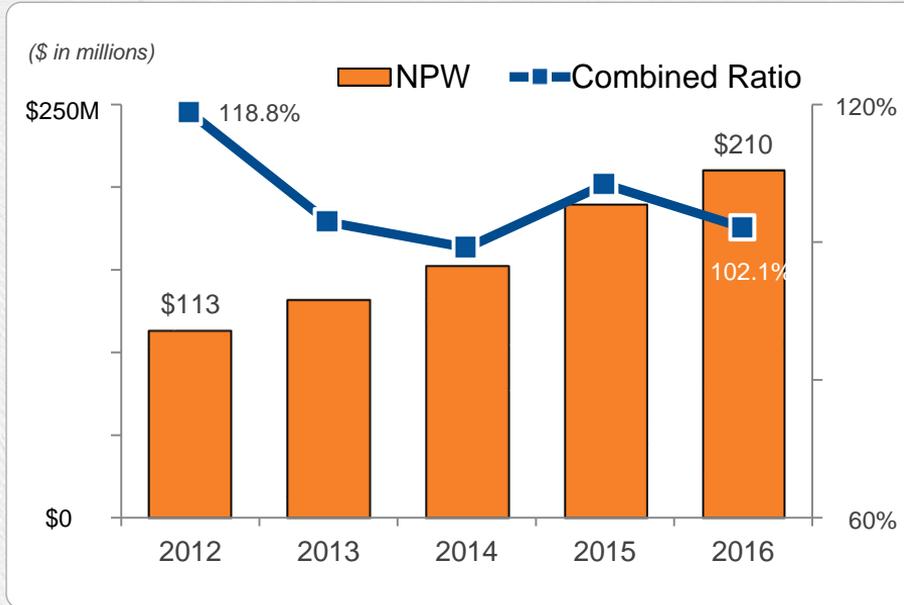
- Profitability close to long term target of 90% combined ratio (in normal CAT year) after years of price increases and underwriting changes
- Sixth largest writer of government-backed “Write Your Own” flood program
- Continue to diversify writings across footprint

## PERSONAL AUTO

- Industry grappling with increased loss frequency and severity trends
- We plan for rate filings averaging ~6% in 2017

Recent uptick in Personal Auto loss trends has resulted in many large players seeking higher prices

# EXCESS & SURPLUS: TARGETING MARGIN IMPROVEMENT



- Entered E&S through two transactions in 2011 and 2012
- Our E&S business has a low-limit profile; average policy size below \$3K
- Significant targeted price increases in challenged classes during 2016 to address underwriting margins
- New business in second half of 2016 was below expectations due to underwriting actions

Long-term target - E&S combined ratio 4-6 points better than Standard Commercial



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## **FINANCIAL STRENGTH & RISK PROFILE**

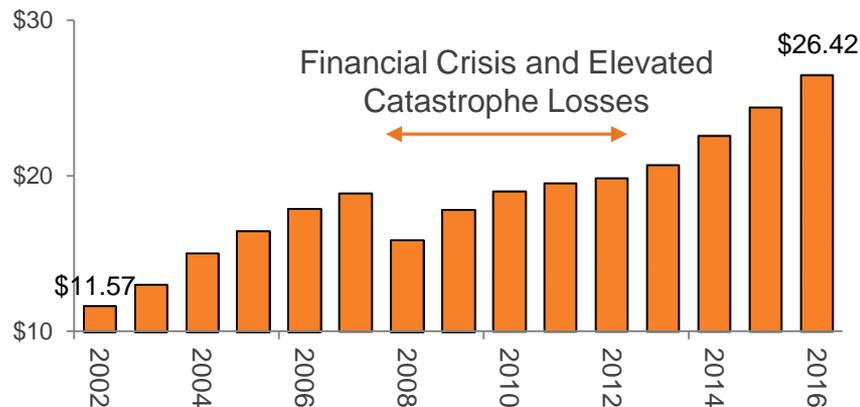
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**MARK WILCOX**

EVP, Chief Financial Officer

# LONG-TERM SHAREHOLDER VALUE CREATION THROUGH BOOK VALUE GROWTH

Selective's Track Record of Book Value per Share Growth over Time



- Long-term financial target – operating ROE\* of 300 basis points above our weighted average cost of capital
- Strong balance sheet underpinned by a conservative approach to:
  - Managing the investment portfolio
  - Purchasing reinsurance protection
  - Reserving
  - Focusing on low- to medium-hazard business
- Because of our conservative approach, we take on more operating leverage with a NPW / surplus ratio of 1.4x
- Each point on the combined ratio equates to ~ 1.0 point of operating ROE\*

Strong financial strength ratings

A.M. Best  
**A**

Fitch  
**A+**

Moody's  
**A2**

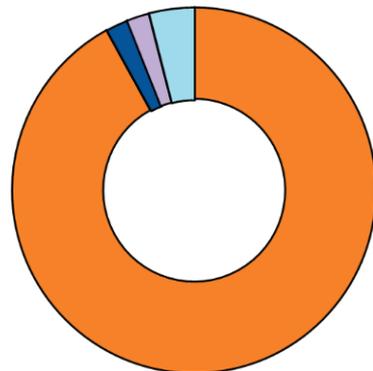
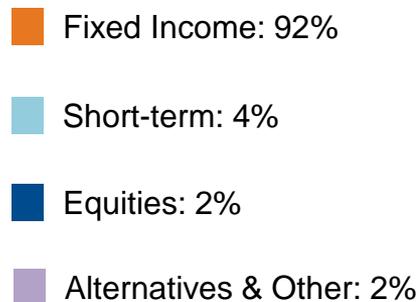
S&P  
**A**



\* Refer to "Safe Harbor Statement" on page 2 of this presentation for further detail regarding certain non-GAAP financial measures

# CONSERVATIVE INVESTMENT PORTFOLIO

As of 12/31/2016

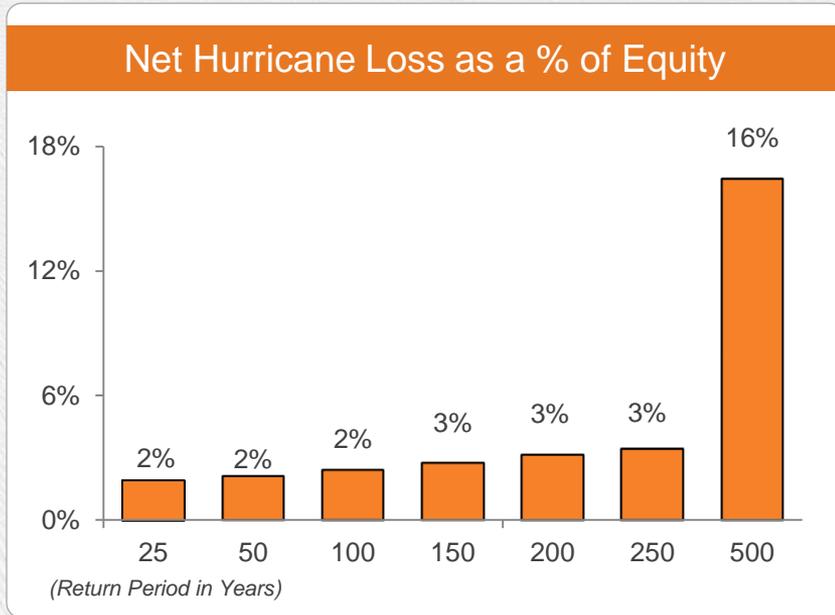


- “AA-” average credit quality
- 3.6 year effective duration (including short-term)
- Fixed income portfolio comprised of 97% investment grade bonds and 3% high yield securities
- 2016 operating cash flow - 13% of NPW
- 2017 after-tax net investment income guidance of approximately \$110 million

Guidance as of February 2, 2017

Investment operating ROE\*: After-tax yield of 1.9% x 3.50 investment leverage = 6.7% in 2016

# CONSERVATIVE REINSURANCE COVERAGE

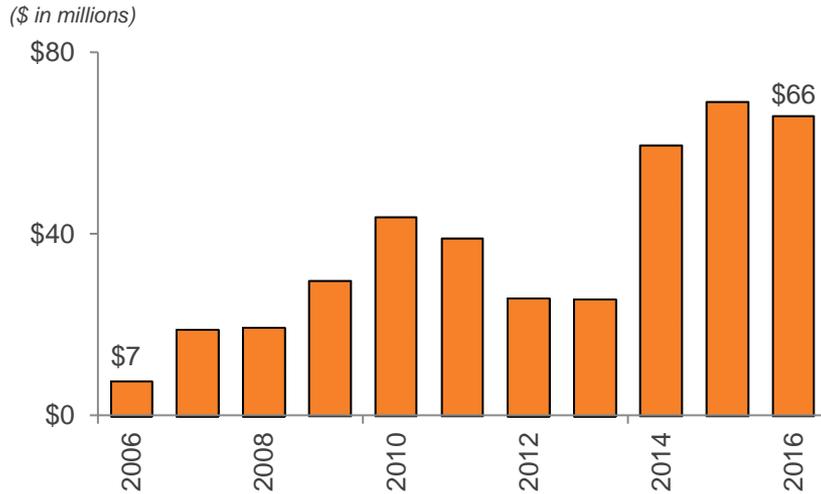


- 2017 property catastrophe treaty structure:
  - Coverage of \$685M in excess of \$40M retention
  - Reinsurance exhausts at approximately 1-in-265 year event level
  - \$201M limit is collateralized
  - Additional earnings volatility protection from our non-footprint \$35M in excess of \$5M layer
- Property XOL treaty covers 100% of losses up to \$58M in excess of \$2M retention
- Casualty XOL treaty covers 100% of losses up to \$88M in excess of \$2M retention

High quality reinsurance recoverables with A.M. Best weighted average rating of “A+”

# A STRONG RESERVING TRACK RECORD

## A Long Track Record of Favorable Development

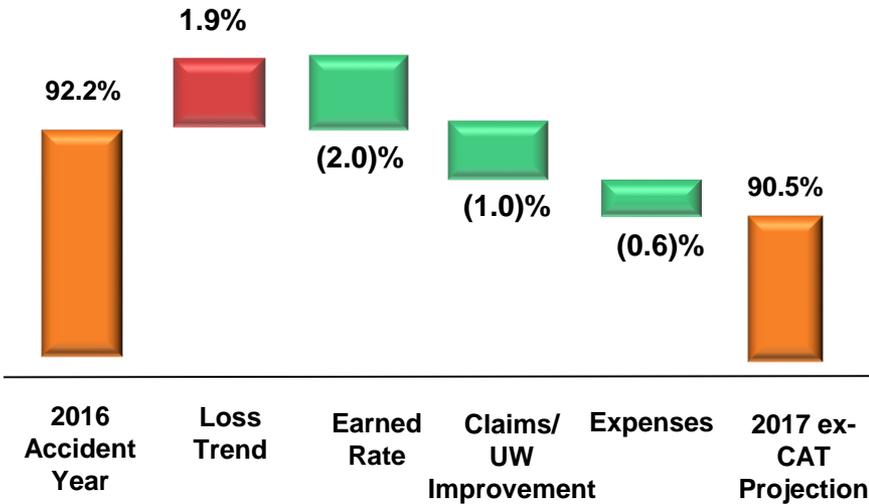


- Disciplined reserving practices with quarterly actuarial reserve reviews
- Independent actuarial review performed semi-annually
- Independent year-end opinion
- Favorable reserve development in Workers Compensation and General Liability lines was partially offset by strengthening in Commercial Auto during 2016

Eleven consecutive years of favorable reserve development

# 2017 COMBINED RATIO PLAN – UNDERLYING MARGIN IMPROVEMENT

## 2017 Statutory Combined Ratio (x-CAT) Forecast of 90.5%



- Earned rate increases in 2017 should offset projected loss cost inflation
- Expense reductions to lower statutory combined ratio by 0.6 points, and claims/underwriting initiatives to help underlying margin by 1.0 points in 2017
- Additional \$10M of expected corporate expense savings that are not included in the combined ratio calculation

Guidance as of February 2, 2017

2017 guidance assumes CAT budget of 3.5 points and no reserve development



## INVESTMENT PROPOSITION

- Long track record of financial strength, superior execution and disciplined profitable growth
- Strong balance sheet with conservative investment portfolio allows us to take on more operating leverage
- Projected investment operating ROE\* of 6.8% in 2017
- Each point on the combined ratio ~ 1.0 point of ROE
- Premium growth opportunity:
  - Growing share of wallet ~ \$1.0B
  - New agent appointments ~\$1.8B
  - New states
- Available capital to support our growth

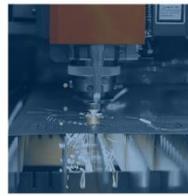
\* Refer to "Safe Harbor Statement" on page 2 of this presentation for further detail regarding certain non-GAAP financial measures

Selective delivers High-tech, High-touch insurance solutions while leveraging a unique distribution model to generate long-term value for shareholders

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**ADDITIONAL INFORMATION**

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# FINANCIAL HIGHLIGHTS 2012 - 2016

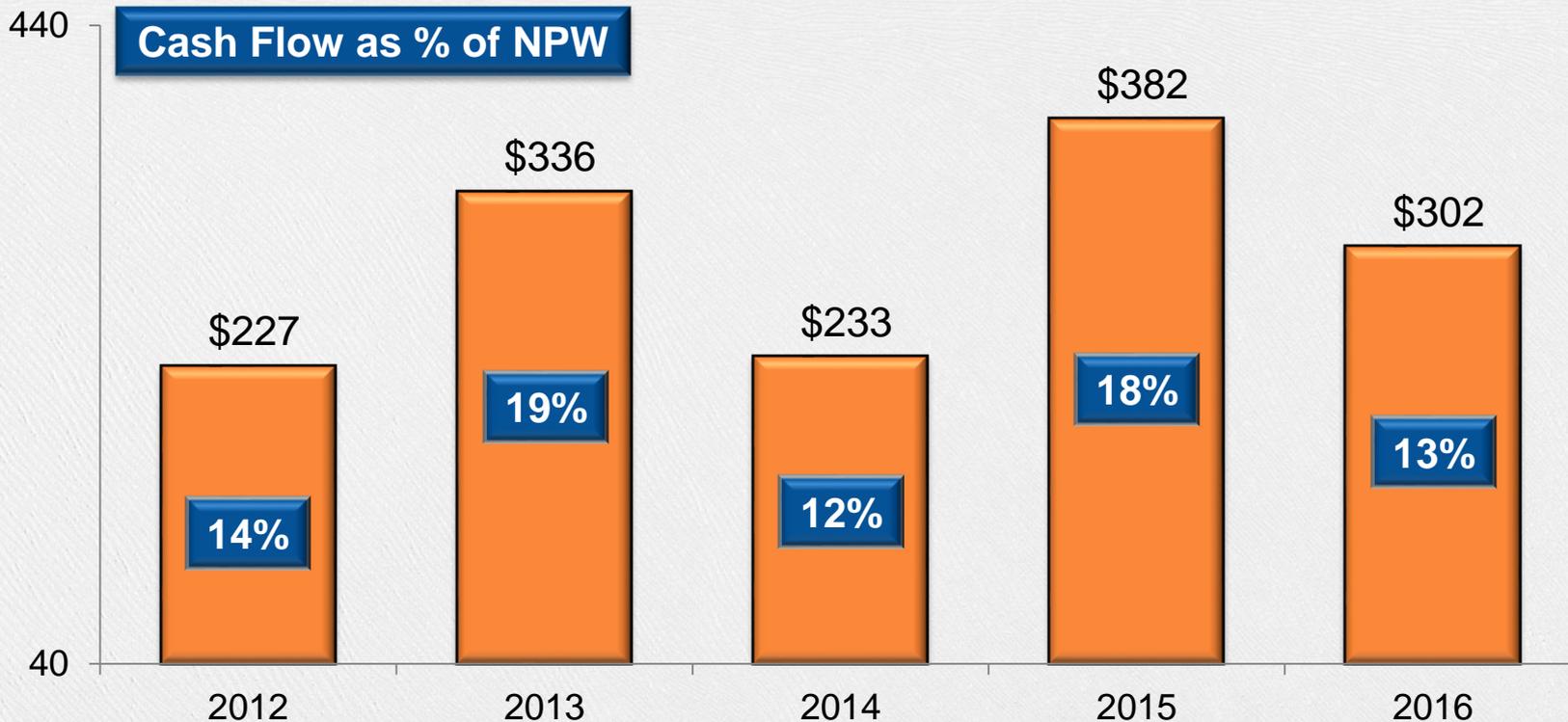
	2012	2013	2014	2015	2016
Statutory NPW Growth	12.2%	8.7%	4.1%	9.8%	8.1%
Net Income per Share	\$0.68	\$1.87	\$2.47	\$2.85	\$2.70
Operating EPS*	\$0.58	\$1.65	\$2.17	\$2.70	\$2.75
Dividend per Share	\$0.52	\$0.52	\$0.53	\$0.57	\$0.61
Book Value per Share	\$19.77	\$20.63	\$22.54	\$24.37	\$26.42
Statutory Premiums to Surplus	1.6x	1.4x	1.4x	1.5x	1.4x
Invested Assets/Stockholder's Equity	3.97	3.97	3.77	3.64	3.50
Return on Average Equity	3.5%	9.5%	11.7%	12.4%	10.8%
Operating Return on Average Equity*	3.0%	8.4%	10.3%	11.8%	11.0%
Statutory Combined Ratio - Total	103.5%	97.5%	95.7%	92.4%	91.8%
- Standard Commercial Lines	103.0%	97.1%	95.5%	89.2%	89.9%
- Standard Personal Lines	100.7%	96.9%	94.5%	99.9%	95.2%
- Excess and Surplus Lines	118.8%	102.9%	99.2%	108.4%	102.1%
GAAP Combined Ratio - Total	104.0%	97.8%	95.8%	92.5%	92.9%
- Standard Commercial Lines	103.3%	97.4%	95.7%	89.2%	91.2%
- Standard Personal Lines	101.3%	97.1%	94.4%	99.5%	95.6%
- Excess and Surplus Lines	124.7%	103.0%	99.7%	109.8%	103.4%

\* Refer to "Safe Harbor Statement" on page 2 of this presentation for further detail regarding certain non-GAAP financial measures



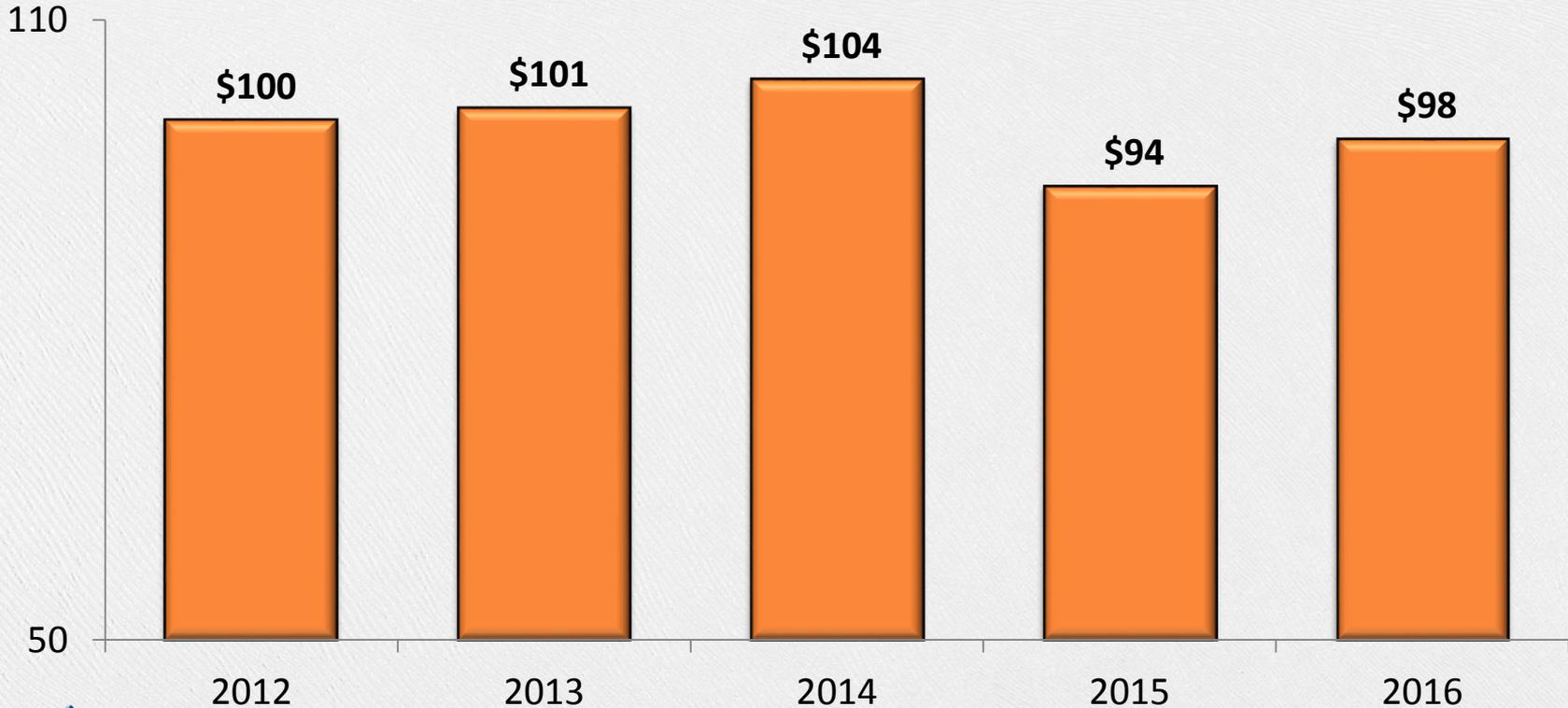
# NET OPERATING CASH FLOW

(\$ in millions)



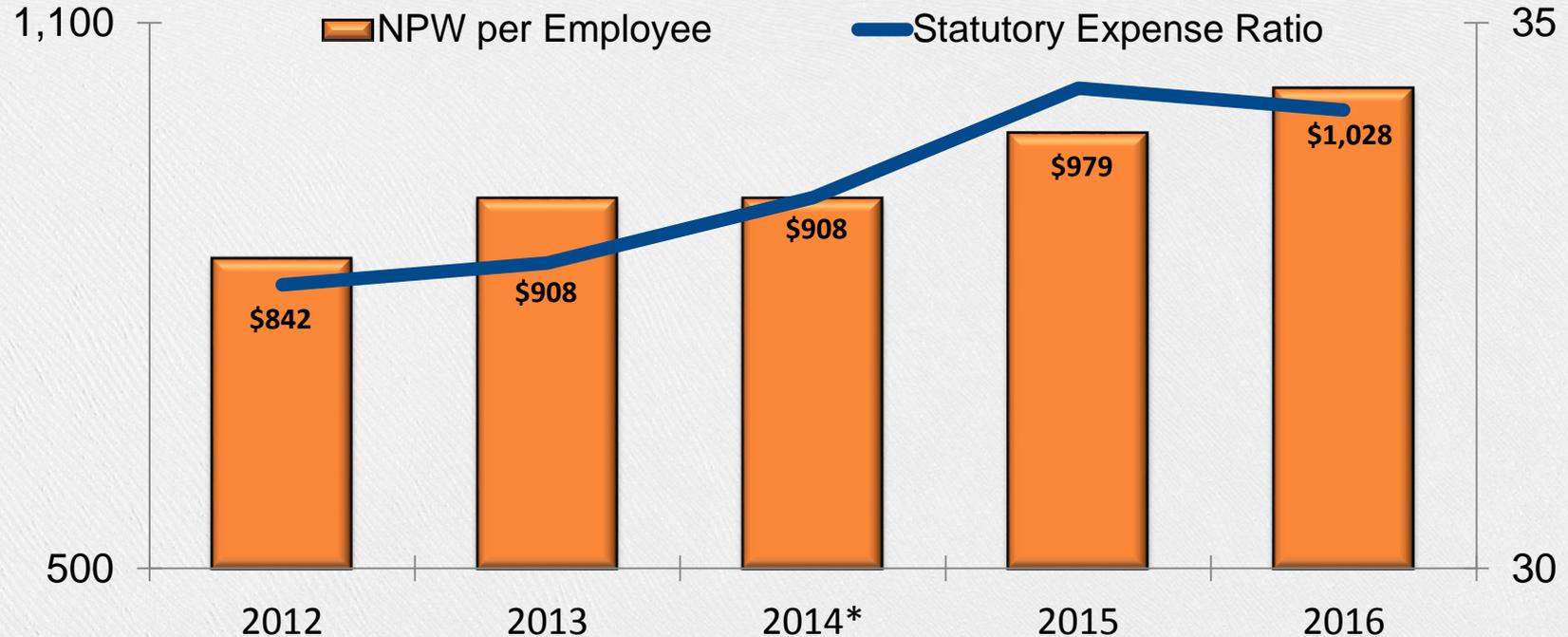
# INVESTMENT INCOME – AFTER TAX

(\$ in millions)



# INSURANCE OPERATIONS PRODUCTIVITY

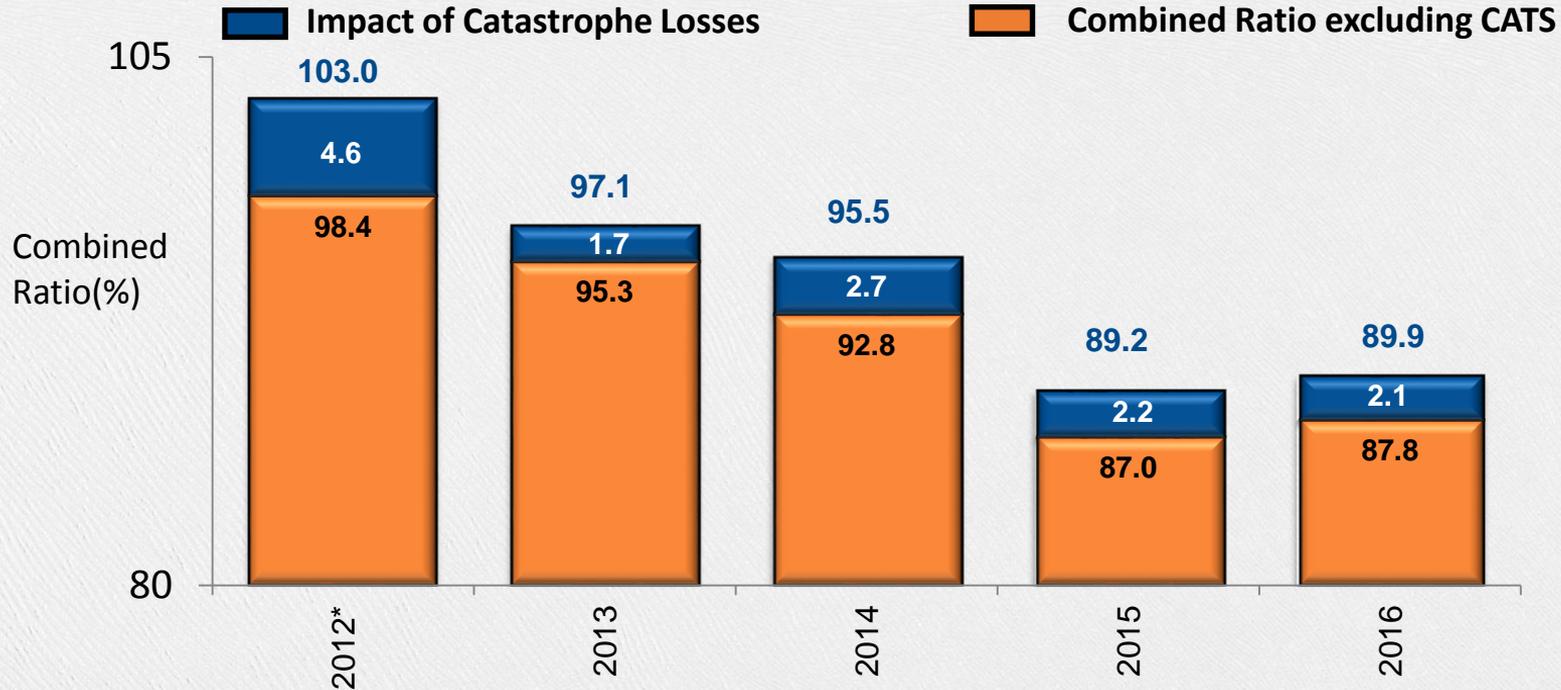
(\$ in 000s)



\*Expense ratio excludes 0.4 point benefit from self-insured group sale

# STANDARD COMMERCIAL LINES PROFITABILITY

## Statutory Combined Ratios

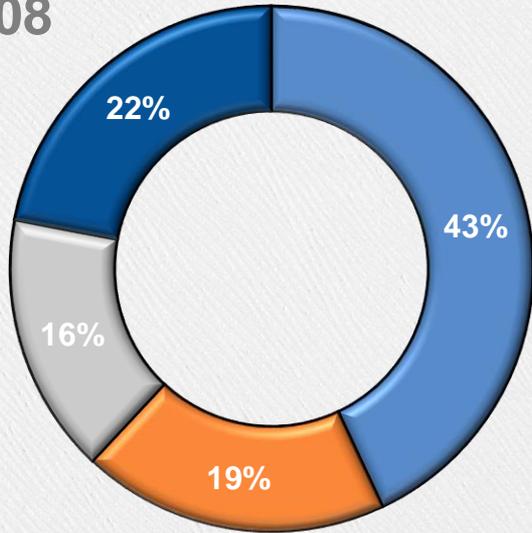


\*Includes impact of reinstatement premium on catastrophe reinsurance program as a result of Hurricane Sandy  
Some amounts may not foot due to rounding

# STANDARD COMMERCIAL LINES PREMIUM BREAKDOWN

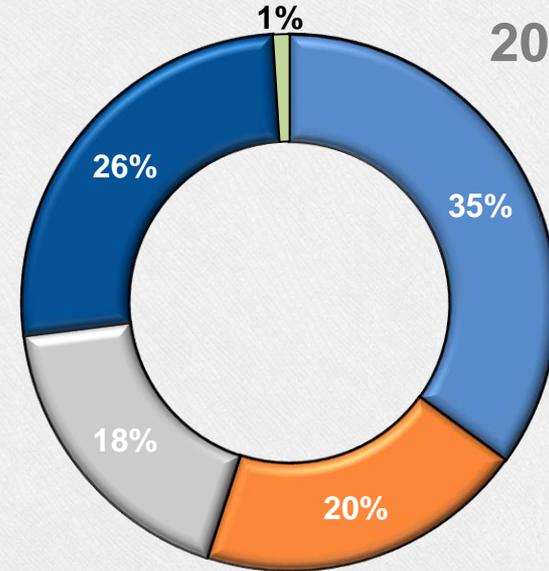
## Strategic Business Unit Diversification

2008



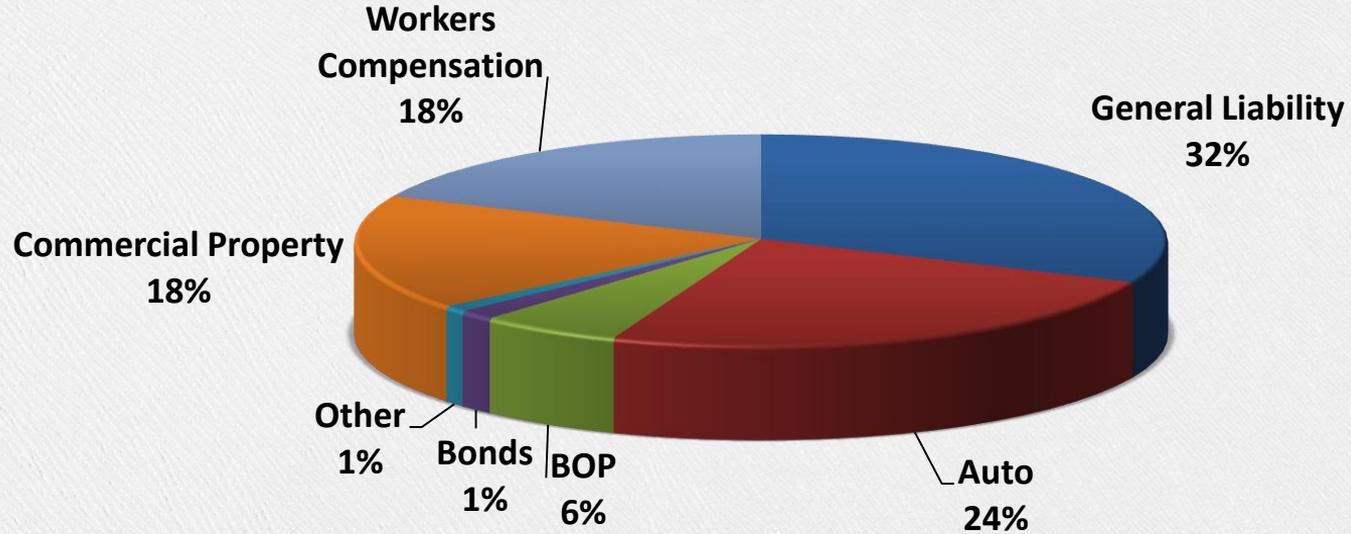
■ Contractors
■ Community & Public Services
■ Manufacturing and Wholesale
■ Mercantile and Services
■ Bonds

2016



# STANDARD COMMERCIAL LINES PREMIUM BREAKDOWN

## 2016 Net Premium Written





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Response is everything.

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