

STANDING STRONG FOR 85 YEARS



# **Bank of America Merrill Lynch 2012 Insurance Conference**

February 15, 2012



# Forward Looking Statement

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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.

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# Financial Overview

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Dale Thatcher

Chief Financial Officer

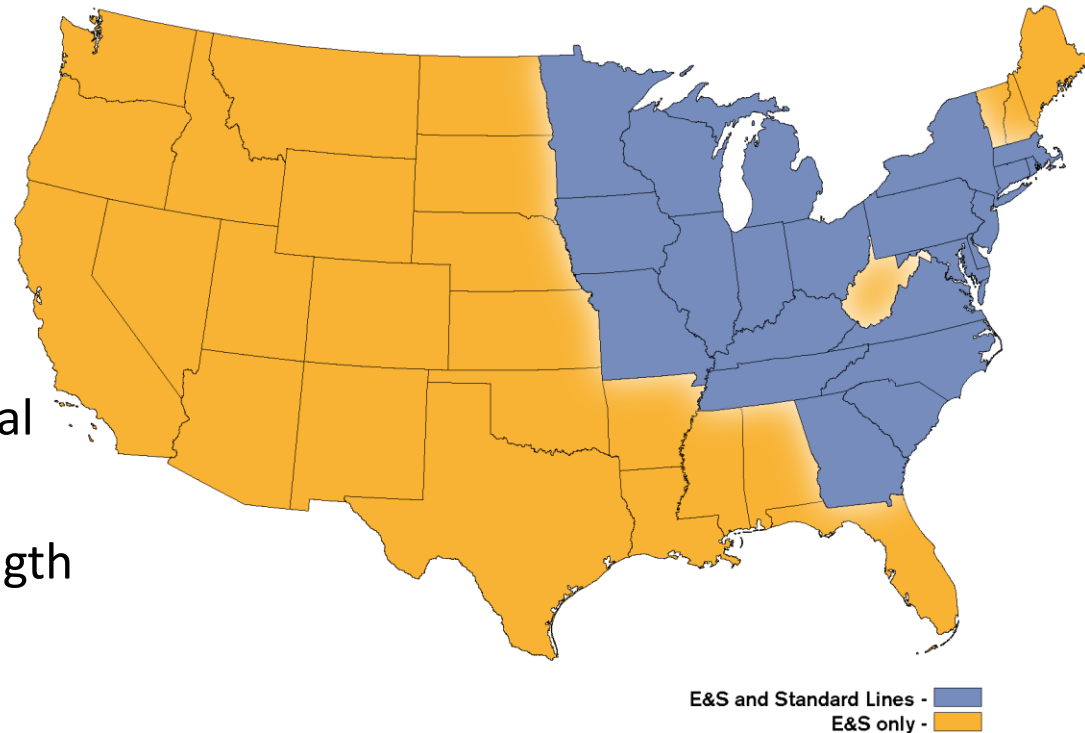


**SELECTIVE®**



# Who We Are

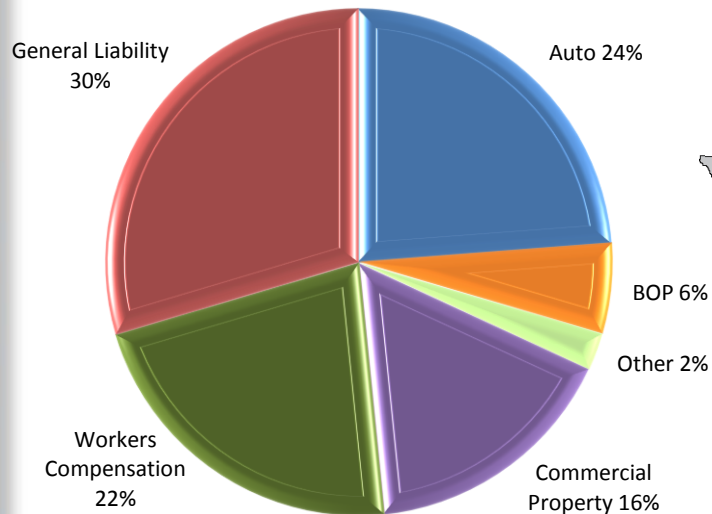
- \$1.5B 2011 NPW
- Super-regional carrier
- Distribution through independent agents
- Small to mid-sized suburban and rural risks
- 80% standard commercial lines
- History of financial strength



Rated “A+” by A.M. Best for 50 consecutive years

# Standard Commercial Lines

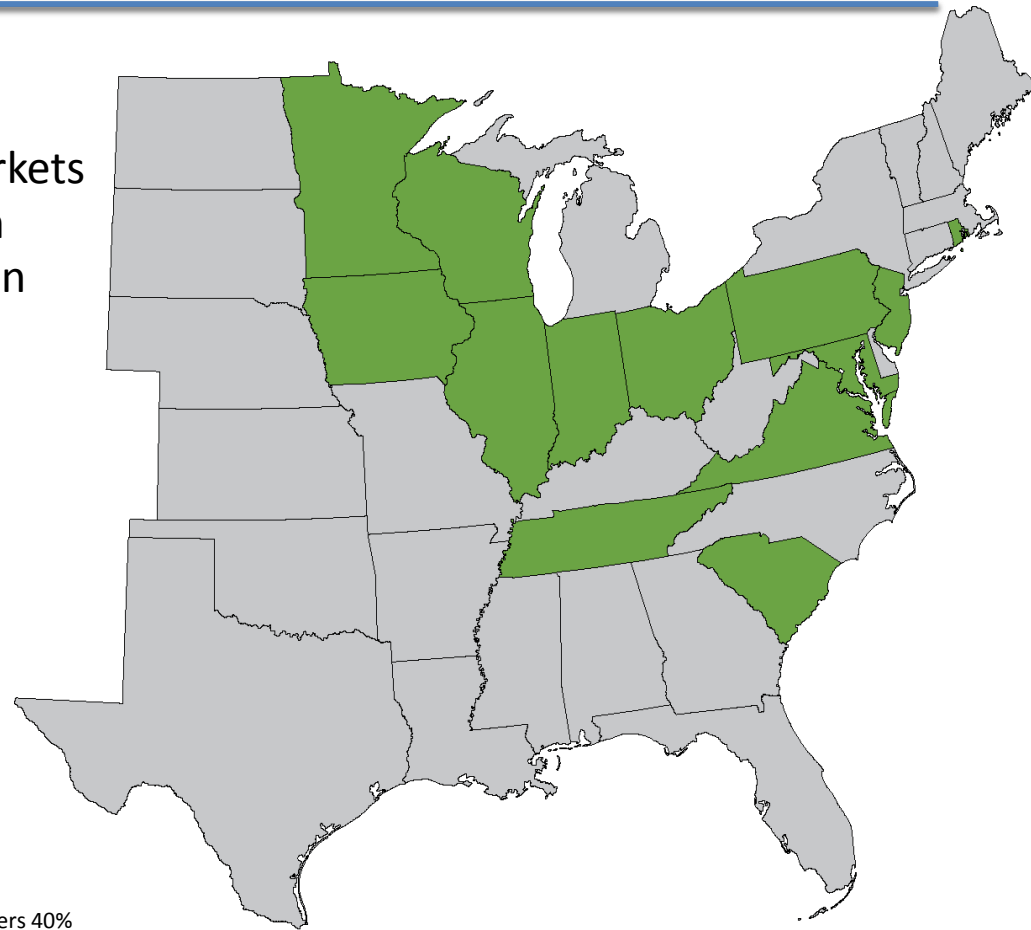
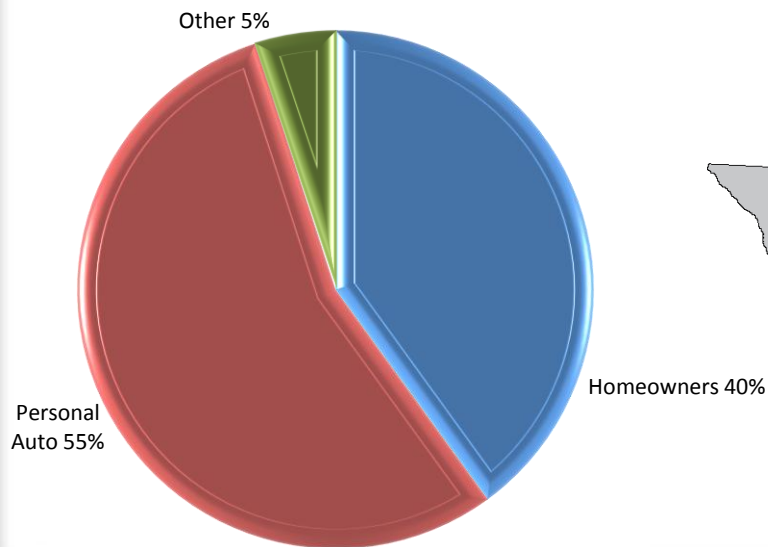
- 22 state footprint
- 1,000 independent agency relationships
- Average account size of \$9,000
- 80% of NPW



Commercial Lines - 

# Personal Lines

- 13 state footprint
- 580 independent agents
- Agents want joint C/L & P/L markets
- Homeowners improvement plan
  - Expect 11.5% in-force rate in 2012
  - By-peril rating capabilities
- Flood 2011 net income \$11M
- 18% of NPW

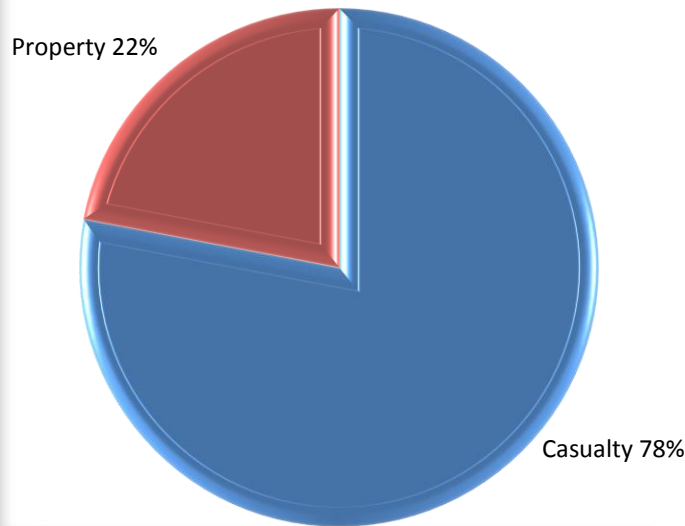


# Contract Binding Authority E&S Business

- Right time to enter business
- 90 wholesale agents with controlled binding authority and no claims authority
- Lower hazard and dollar limits
- Average account size \$2,200
- Similar to Selective's small business model
- 2010: \$120M GPW



STONECREEK<sup>SM</sup>  
Specialty

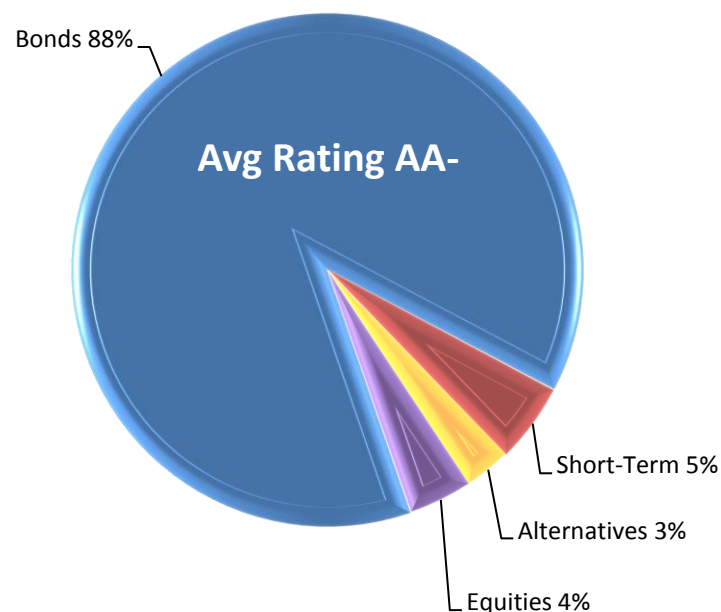




# High Quality Investment Portfolio

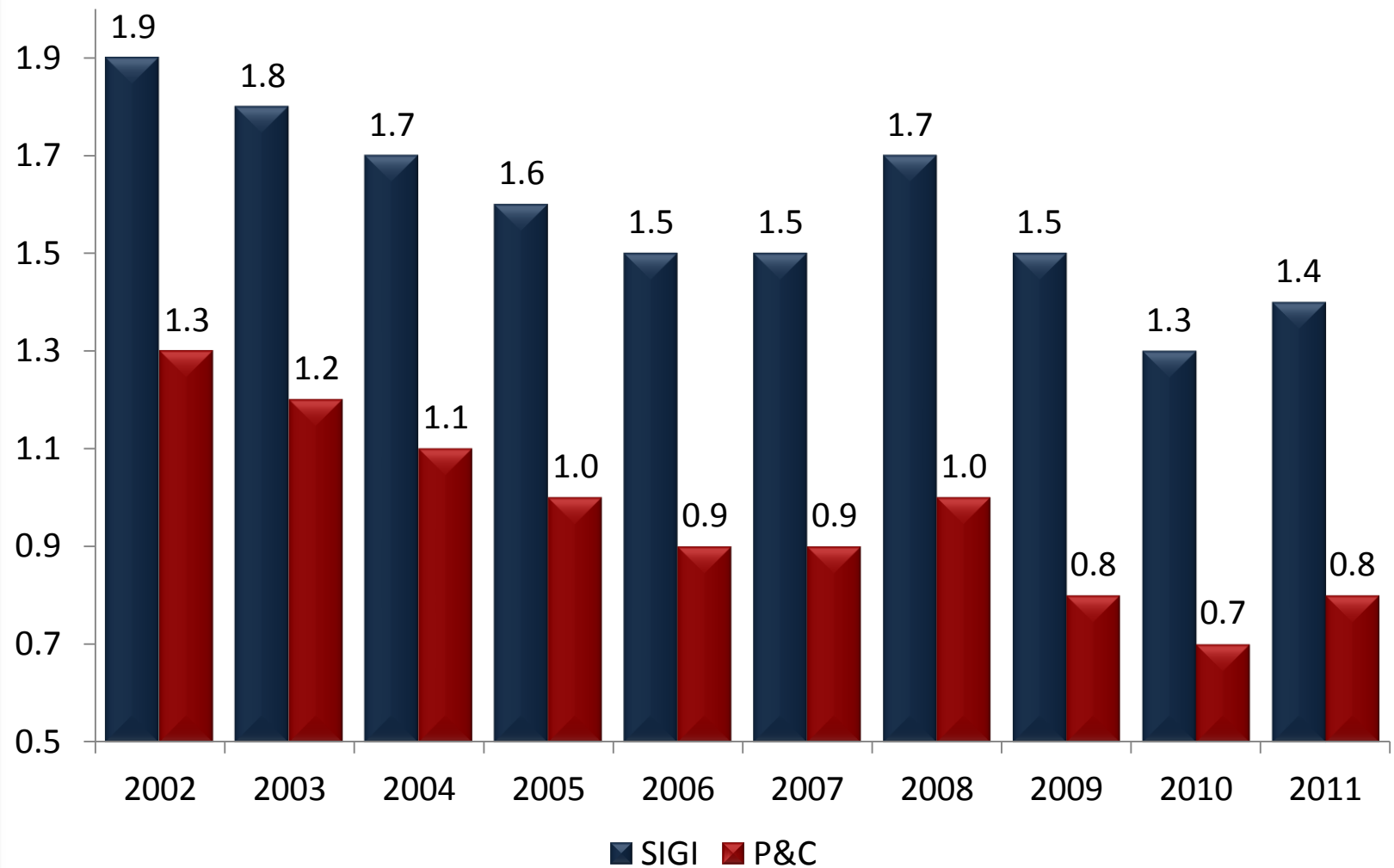
- Well diversified, laddered portfolio
- Deployed high dividend yield equity strategy in 2011
- 1% of bond portfolio rated “BB” & below
- 3.2 year average duration
- Investment leverage = 3.71x

**\$4.1B Invested Assets  
December 31, 2011**





# Selective's Use of Underwriting Leverage

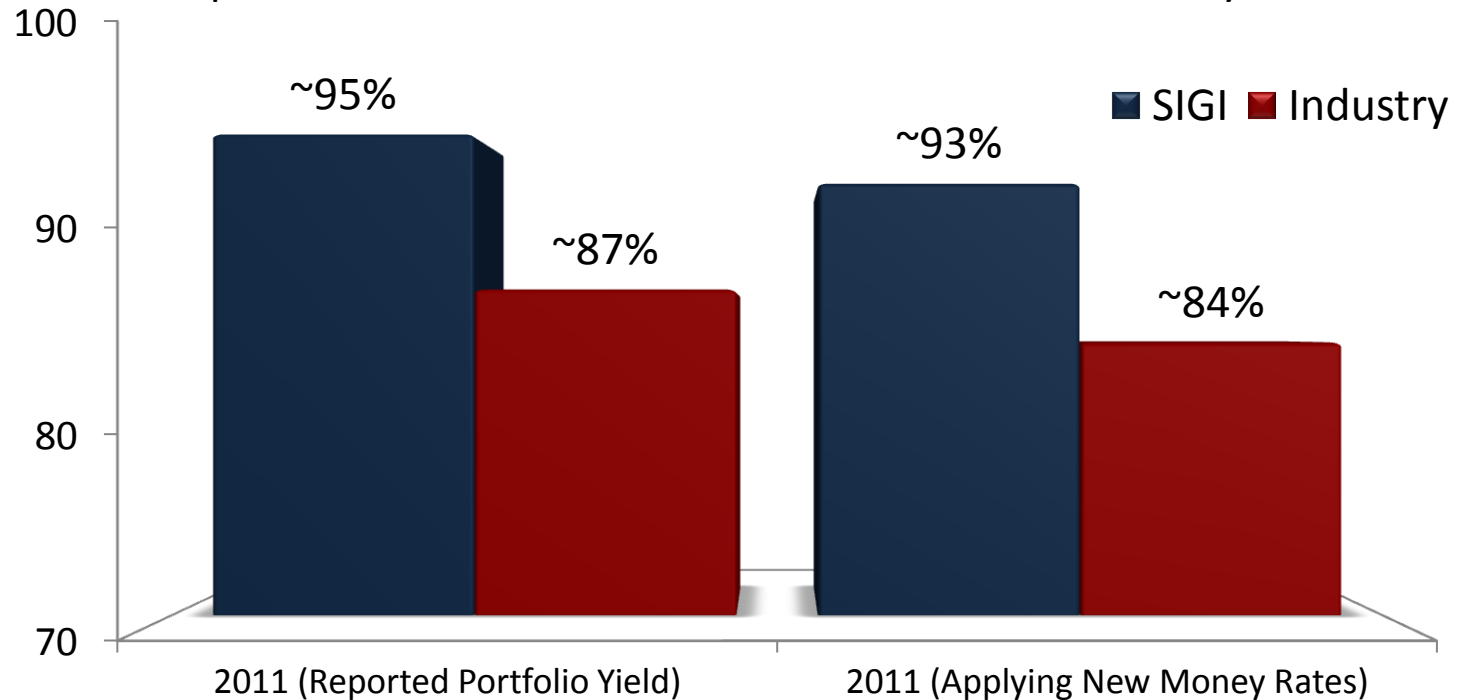


Sources: ISO, AM Best, III

# Impact of Leverage

## Combined Ratio Required for 12% ROE

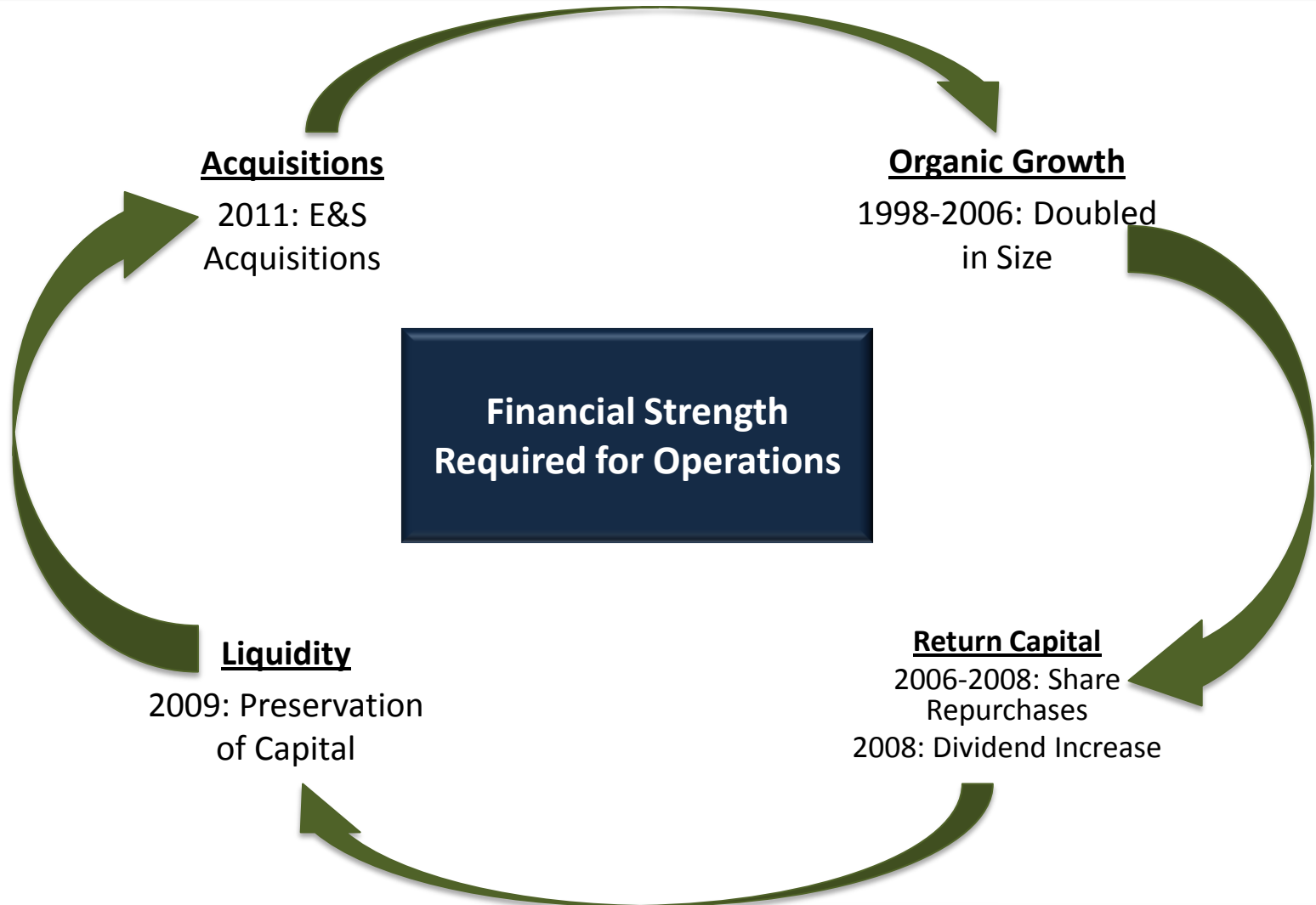
Reported Investment Portfolio Yield Versus New Money Rates



Leverage	Investment	Underwriting
SIGI	3.7x	1.4x
Industry	2.3x	0.8x

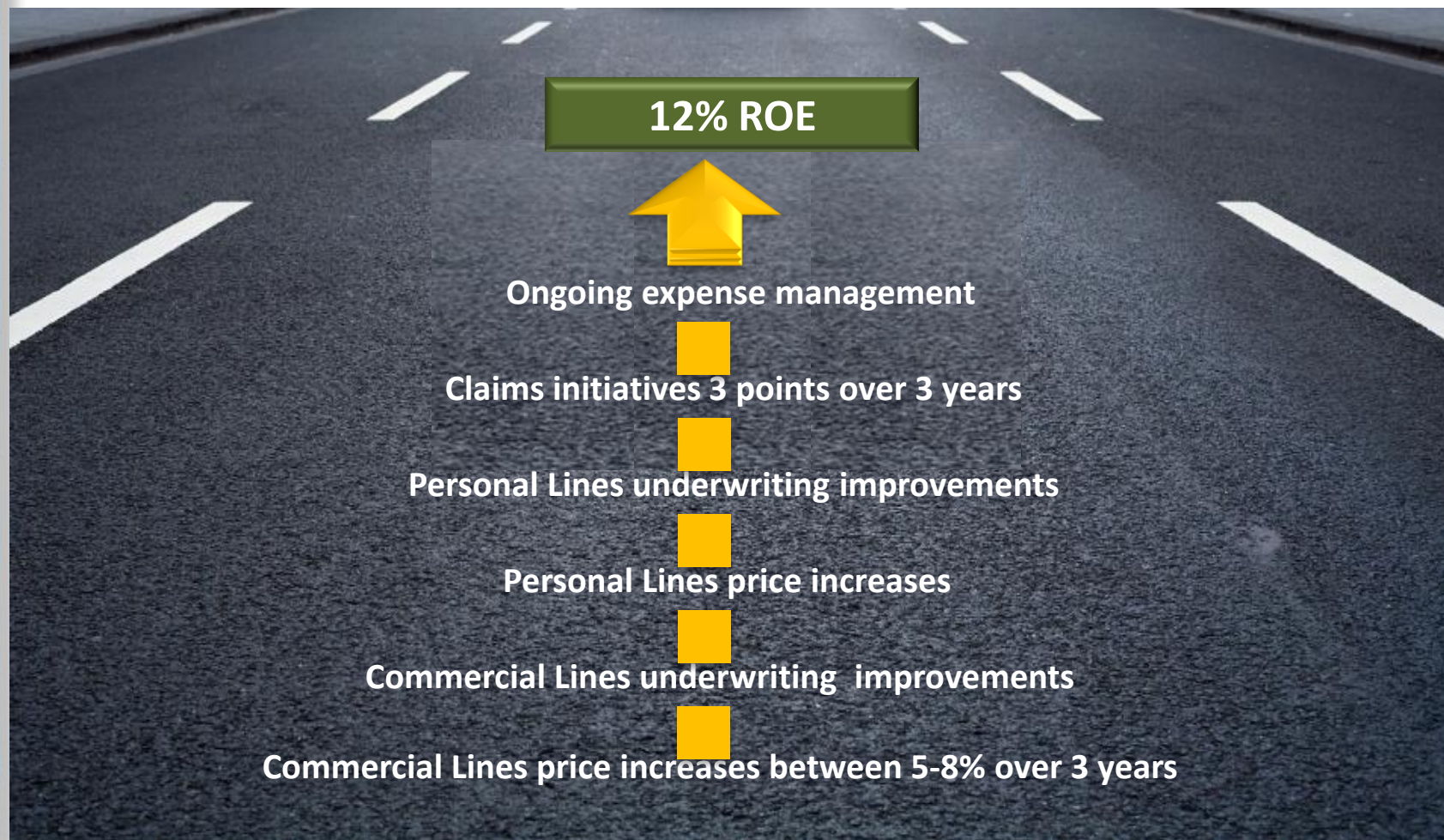
Industry Source: AM Best Estimates

# Strategically Deploying Capital





# Road to 12% ROE





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# Strategic Overview

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Greg Murphy

Chairman, President & CEO



**SELECTIVE®**

# Driving Success with Franchise Relationships

High-tech, high-touch business model

Agent Touchpoints

Participative  
management team

Technology connectivity

Annual surveys  
highlight areas of  
improvement

Agent road shows

Field model built  
around Agency Management  
Specialists (AMS)

# Relationships Drive Business

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- 100 field underwriters focusing on middle market accounts
- Responsible for agent growth and profitability
- Expect \$2.5M in new business per AMS/year

# Agent Touchpoints with Selective





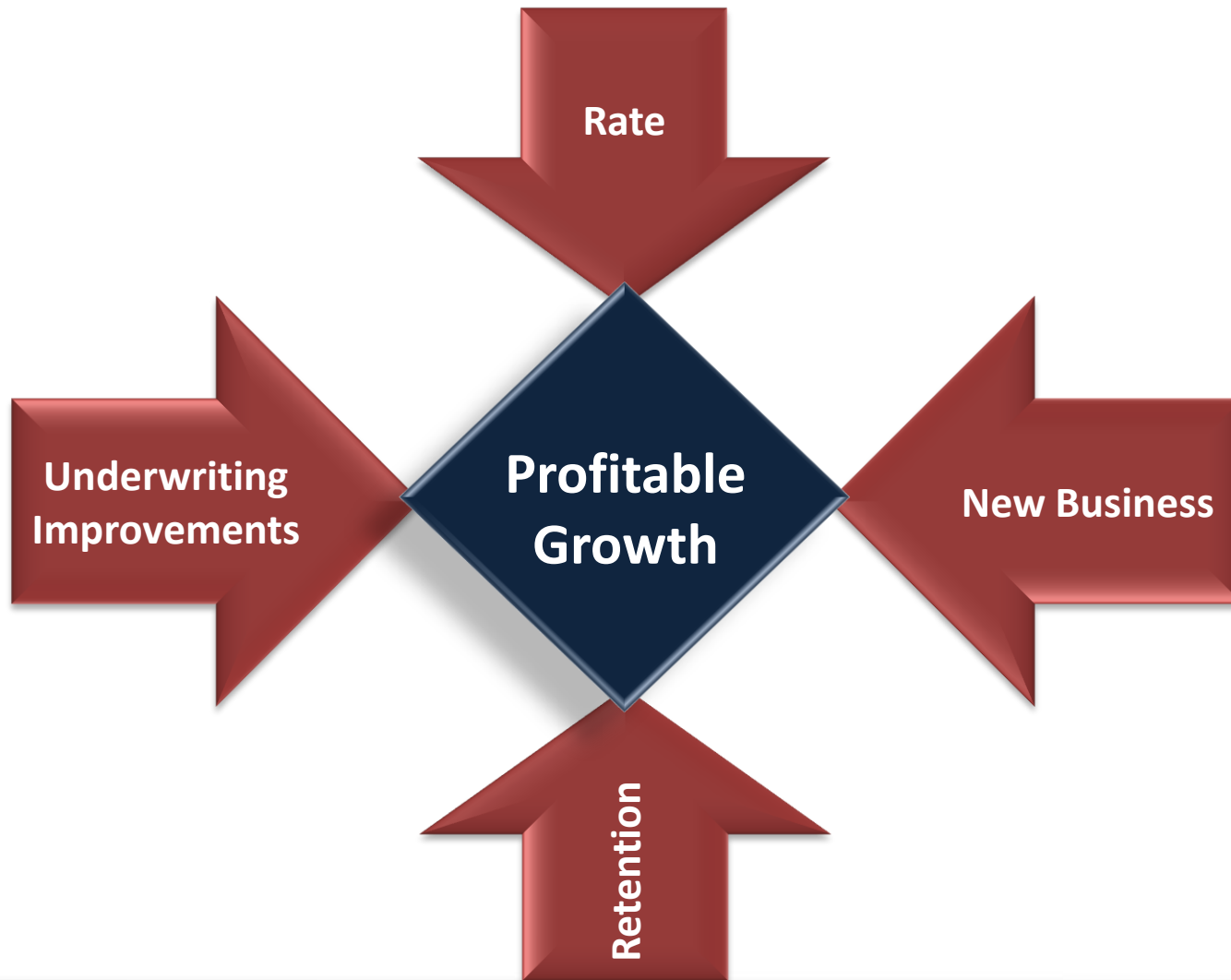
# End-Customer Relationships



Customer Satisfaction Drives Long-Term Success

# Strategy for Profitable Growth

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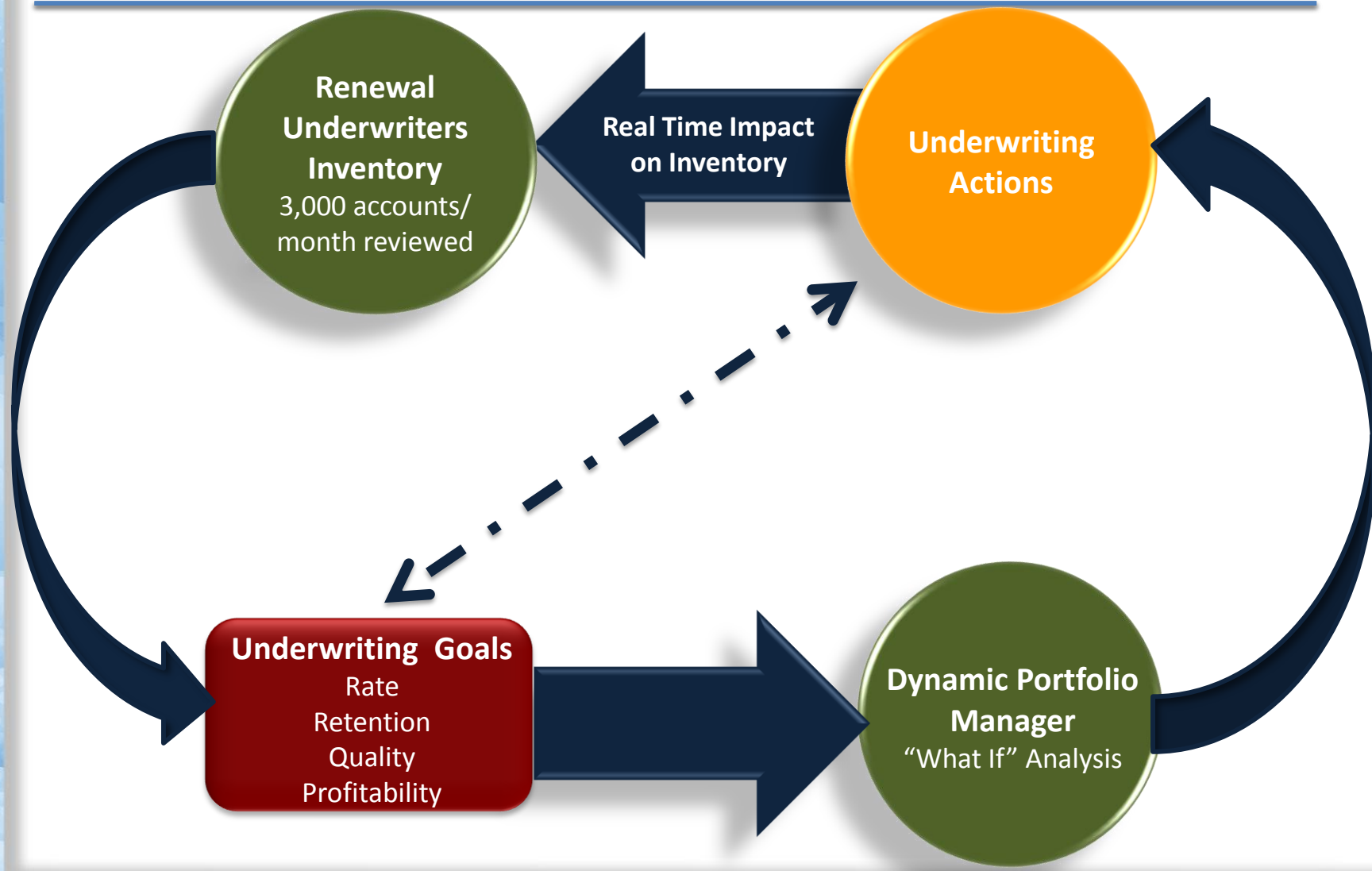
# Successfully Managing the Commercial Lines Cycle

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- 11 consecutive quarters of C/L renewal price increases
- Dynamic Portfolio Manager
  - Consolidates information and increases productivity
  - Models renewal strategies
  - Feedback loop to improve inventory management leading to better decisions and better results



# Dynamic Portfolio Manager Decision Flow





# New Business Capacity for Profitable Growth

- Share of wallet 7%
- \$2.5M in new business per AMS
- New FMS role created
  - Marketing small C/L business and P/L
  - Adding agency storefronts to increase scale
- 50+ new and expanded C/L products
- \$300-400 million CBA E&S premium potential



# New Cycle, New Opportunities



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# Financial Highlights 2007 – 2011

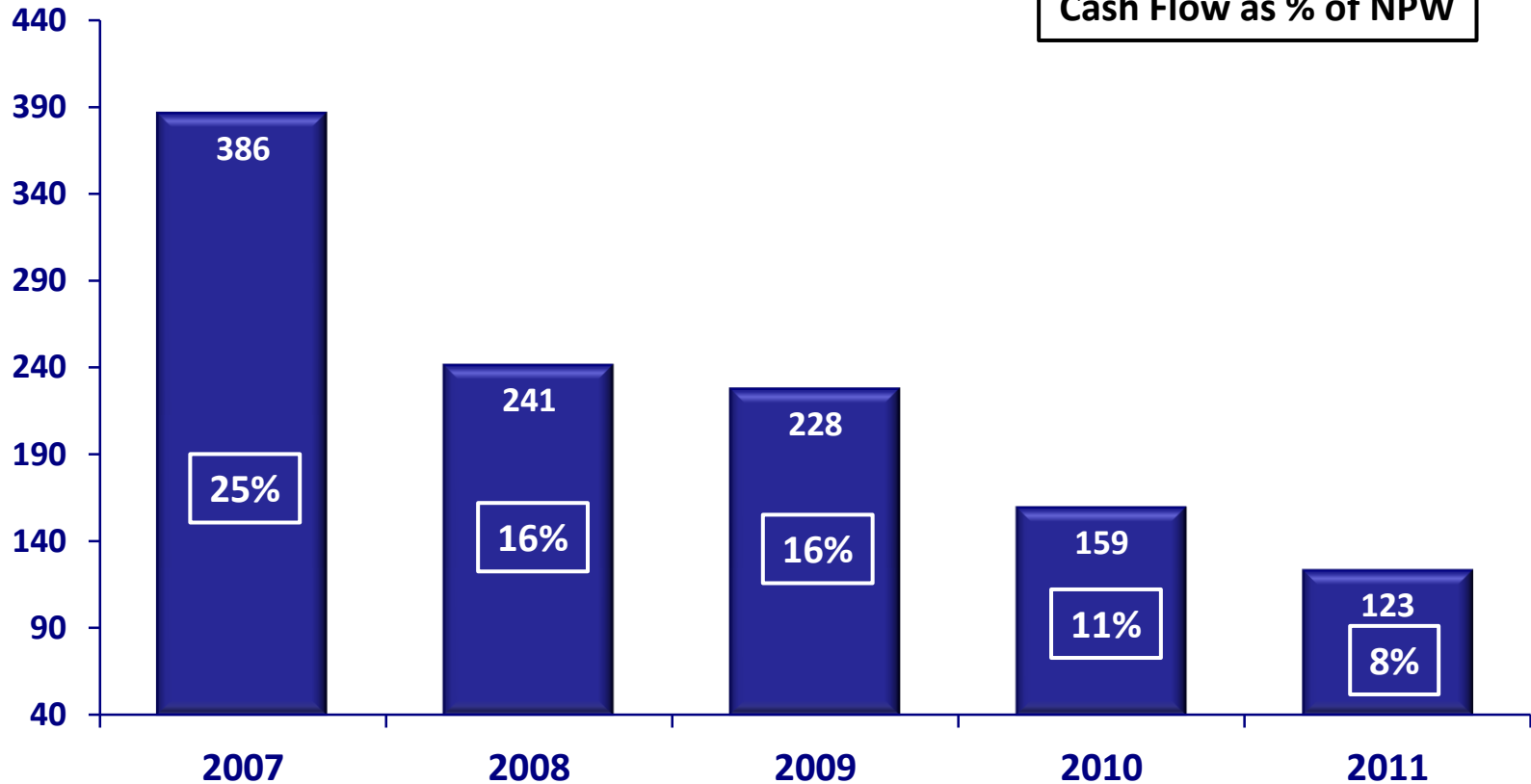
	2011	2010	2009	2008	2007
<b>NPW Growth</b>	<b>6.8%</b>	<b>(2.3)%</b>	<b>(4.7)%</b>	<b>(4.5)%</b>	<b>1.4%</b>
<b>Operating EPS</b>	<b>\$0.34</b>	<b>\$1.35</b>	<b>\$1.39</b>	<b>\$1.43</b>	<b>\$2.16</b>
<b>Net Income per Share</b>	<b>\$0.36</b>	<b>\$1.20</b>	<b>\$0.68</b>	<b>\$0.82</b>	<b>\$2.59</b>
<b>Dividend per Share</b>	<b>\$0.52</b>	<b>\$0.52</b>	<b>\$0.52</b>	<b>\$0.52</b>	<b>\$0.49</b>
<b>Book Value</b>	<b>\$20.39</b>	<b>\$19.95</b>	<b>\$18.83</b>	<b>\$16.84</b>	<b>\$19.81</b>
<b>Return on Equity</b>	<b>1.8%</b>	<b>6.3%</b>	<b>3.8%</b>	<b>4.5%</b>	<b>13.6%</b>
<b>Operating Return on Equity</b>	<b>1.7%</b>	<b>7.1%</b>	<b>7.9%</b>	<b>7.8%</b>	<b>11.3%</b>
<b>Statutory Combined Ratio - Total</b>	<b>106.7%</b>	<b>101.6%</b>	<b>100.5%</b>	<b>99.2%</b>	<b>97.5%</b>
<b>- Commercial Lines</b>	<b>104.3%</b>	<b>100.8%</b>	<b>99.8%</b>	<b>98.5%</b>	<b>95.9%</b>
<b>- Personal Lines</b>	<b>117.3%</b>	<b>106.4%</b>	<b>104.4%</b>	<b>103.7%</b>	<b>107.9%</b>
<b>GAAP Combined Ratio - Total</b>	<b>107.4%</b>	<b>101.6%</b>	<b>99.8%</b>	<b>100.0%</b>	<b>98.0%</b>
<b>- Commercial Lines</b>	<b>105.1%</b>	<b>100.1%</b>	<b>98.8%</b>	<b>99.2%</b>	<b>96.5%</b>
<b>- Personal Lines</b>	<b>118.0%</b>	<b>108.5%</b>	<b>105.6%</b>	<b>105.1%</b>	<b>107.7%</b>



# Net Operating Cash Flow

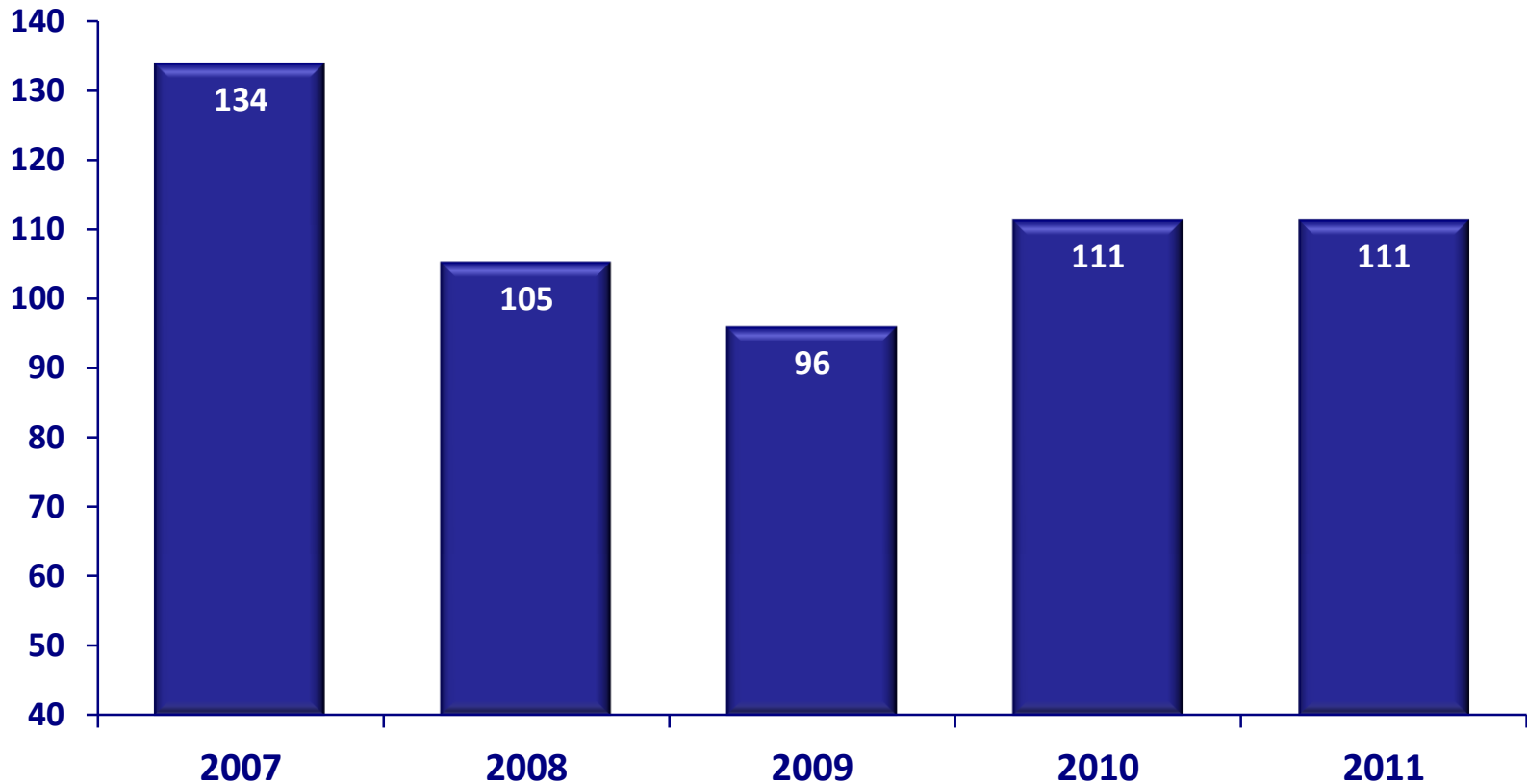
(\$ in millions)

Cash Flow as % of NPW

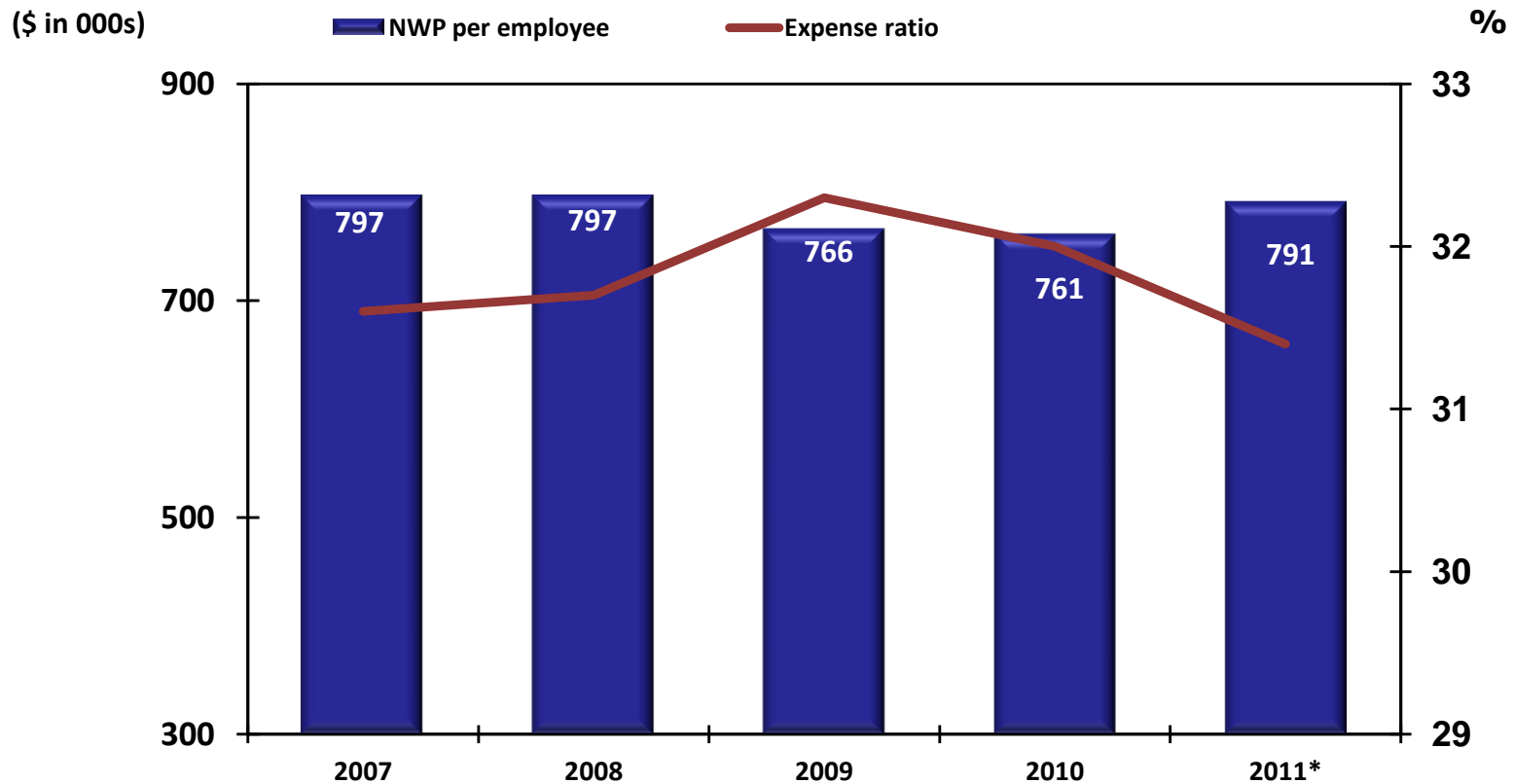


# Investment Income – After-tax

(\$ in millions)



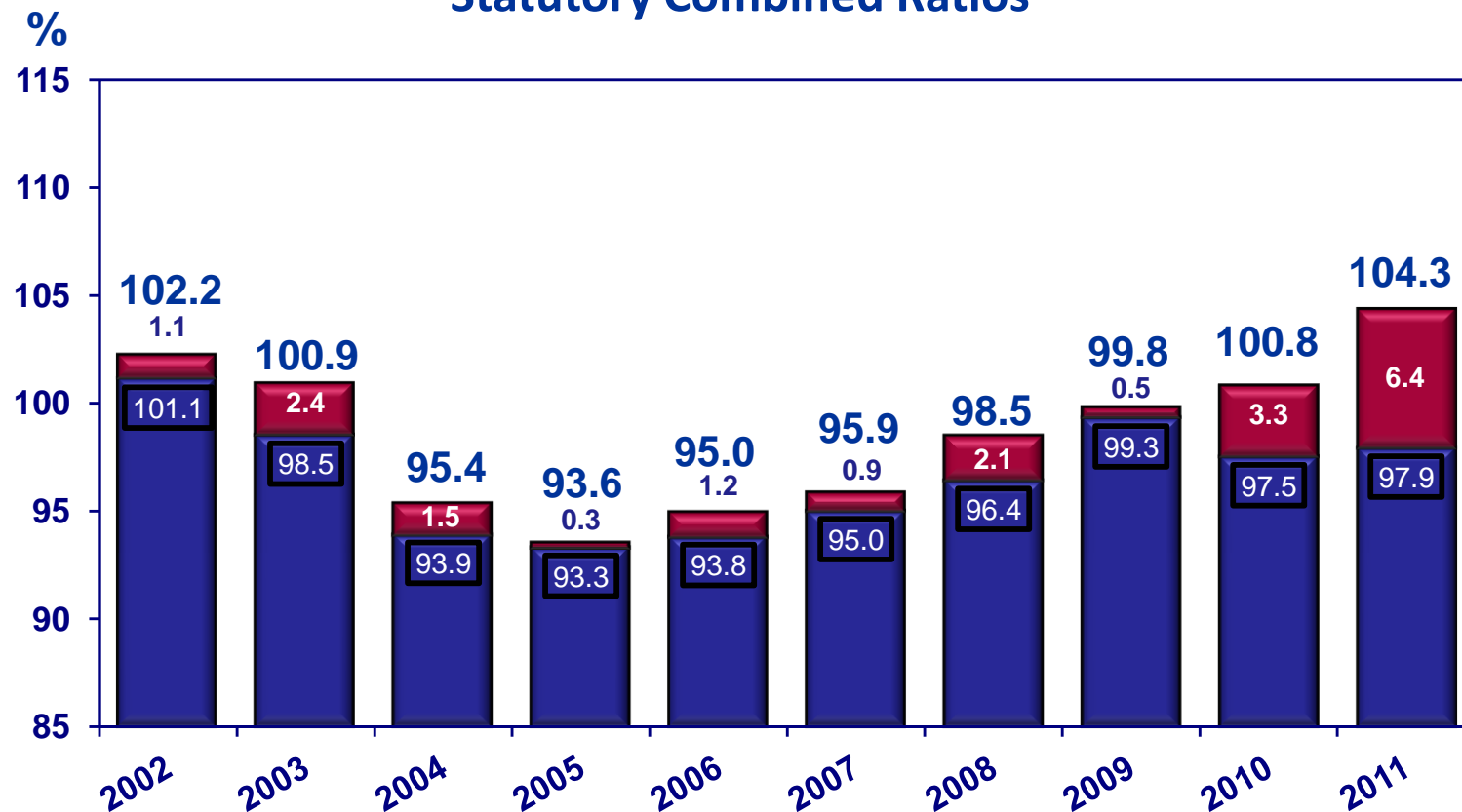
# Insurance Operations Productivity



*\*2011 NWP per employee excludes E&S operations*

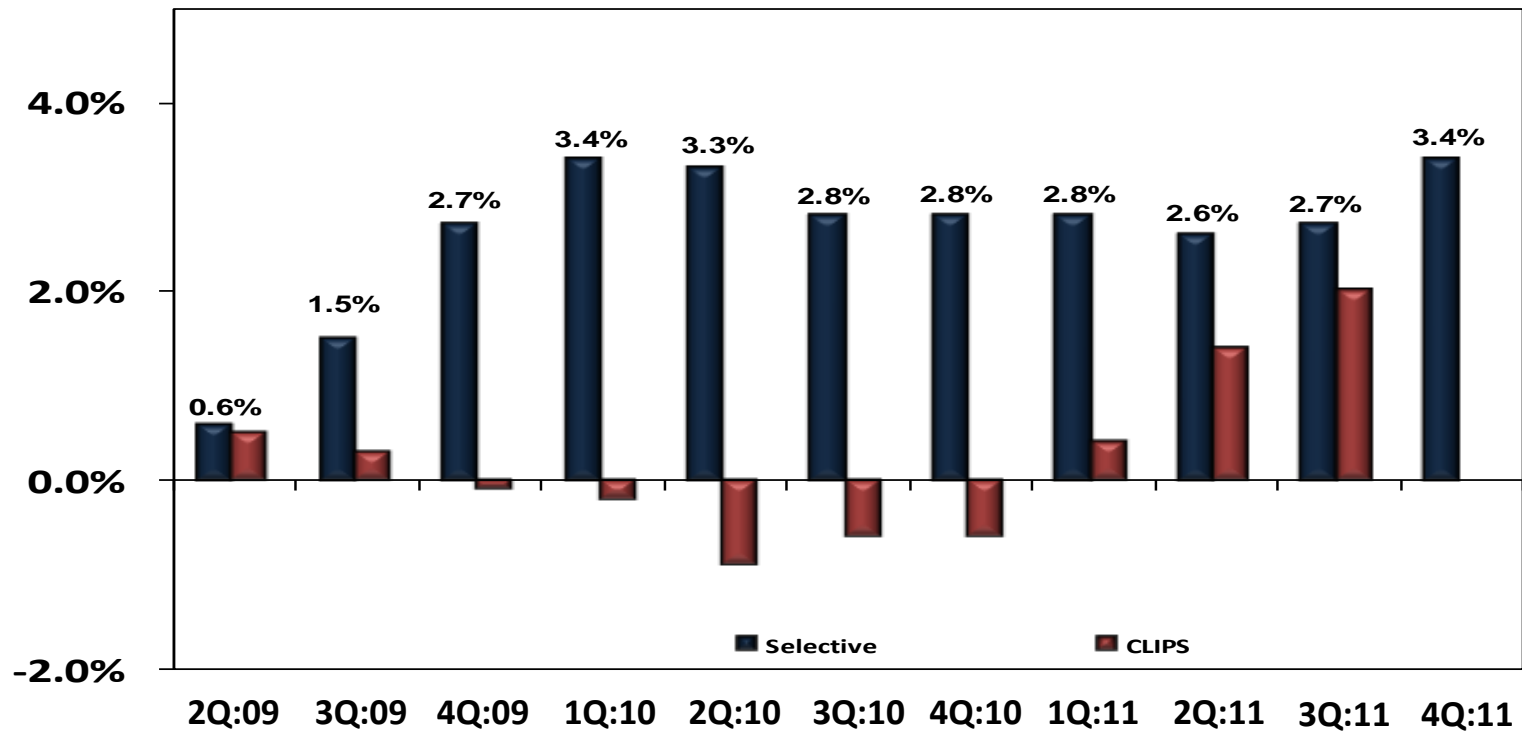
# Commercial Lines Profitability

## Statutory Combined Ratios





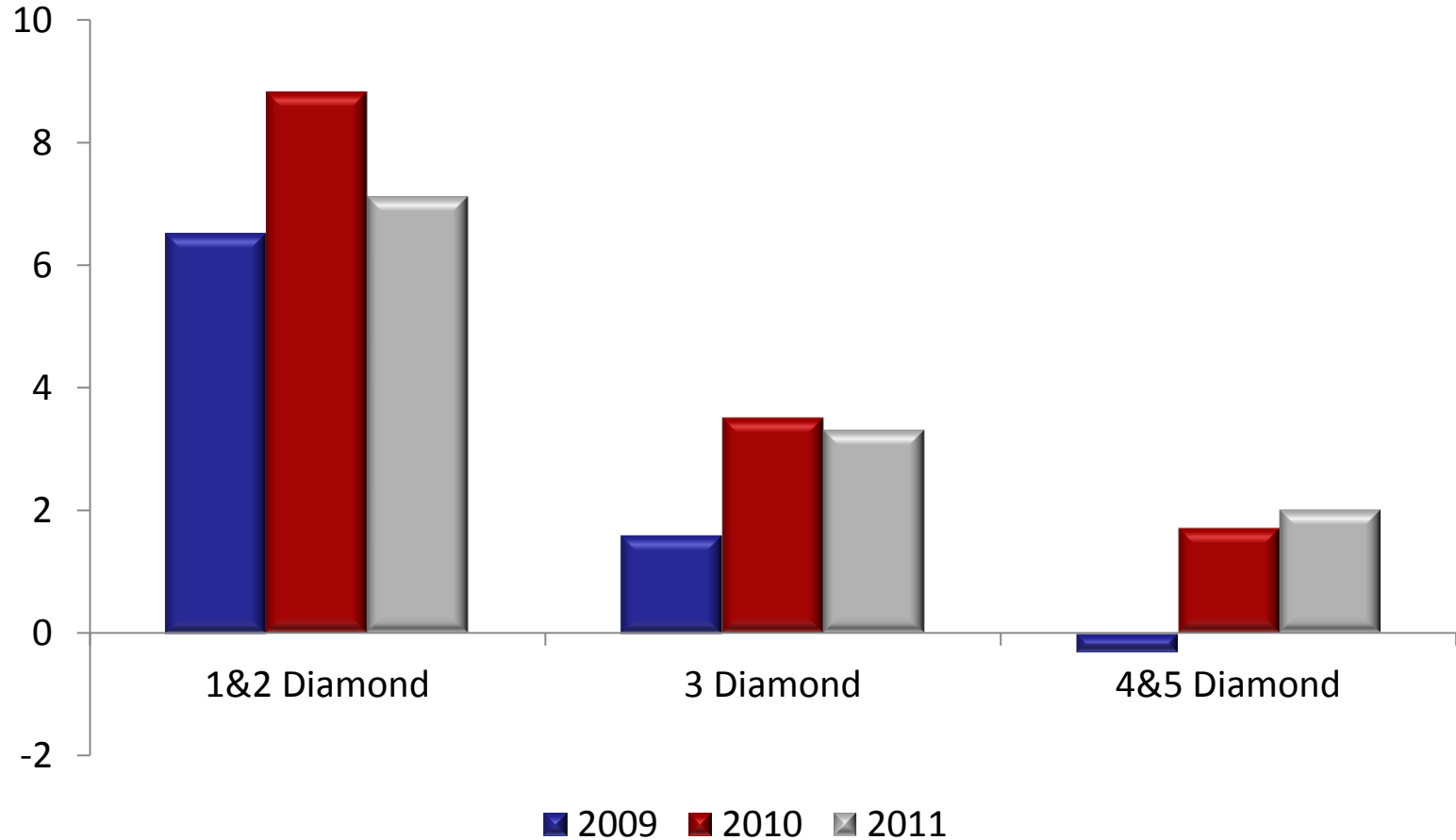
# Selective's Commercial Lines Renewal Pricing Success



11 consecutive quarters of positive price

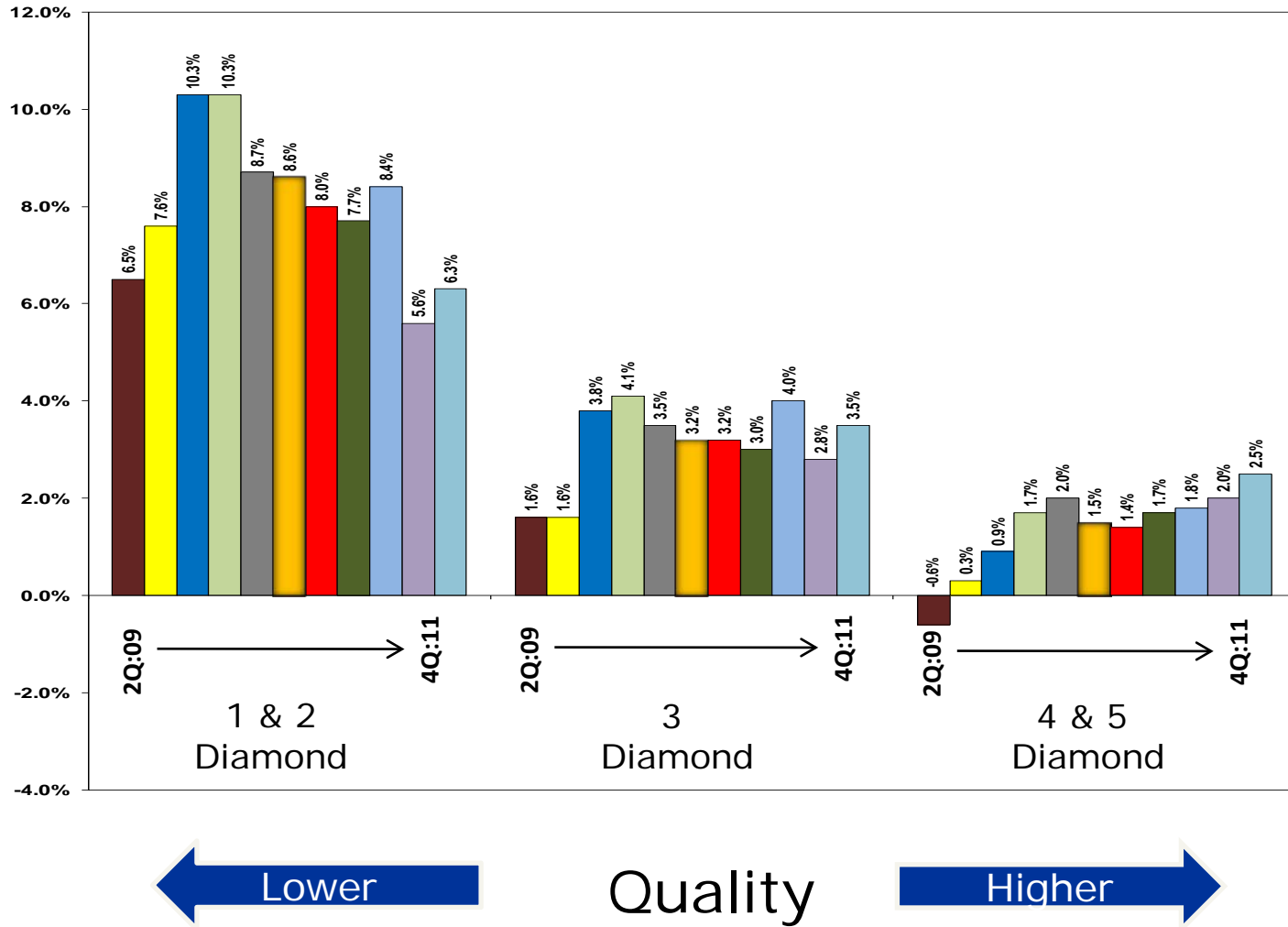
# Granular Pricing Capabilities

Pricing by Diamond

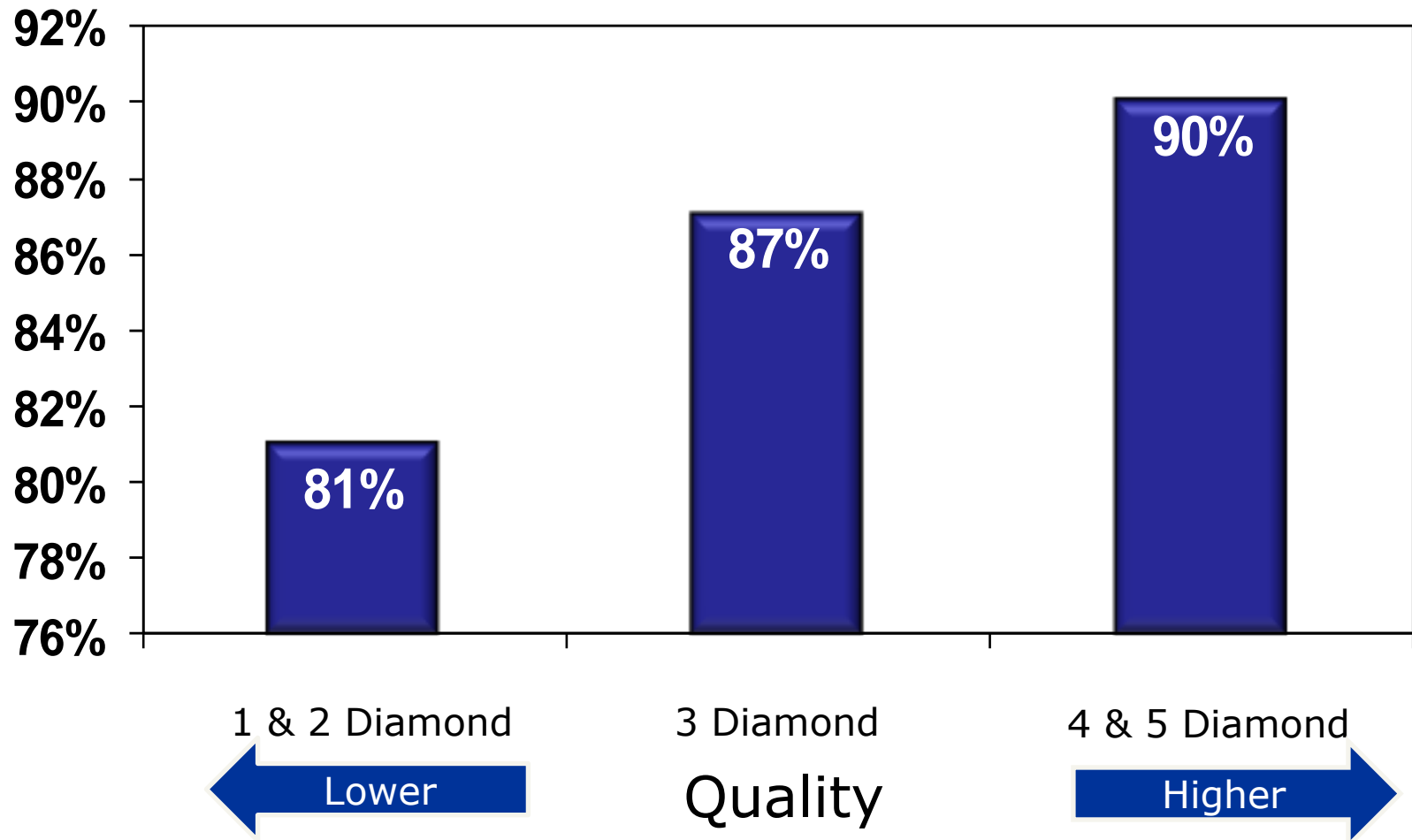


# Granular Pricing Capabilities

## Quarterly Pricing by Diamond



# Retaining our Best Commercial Business

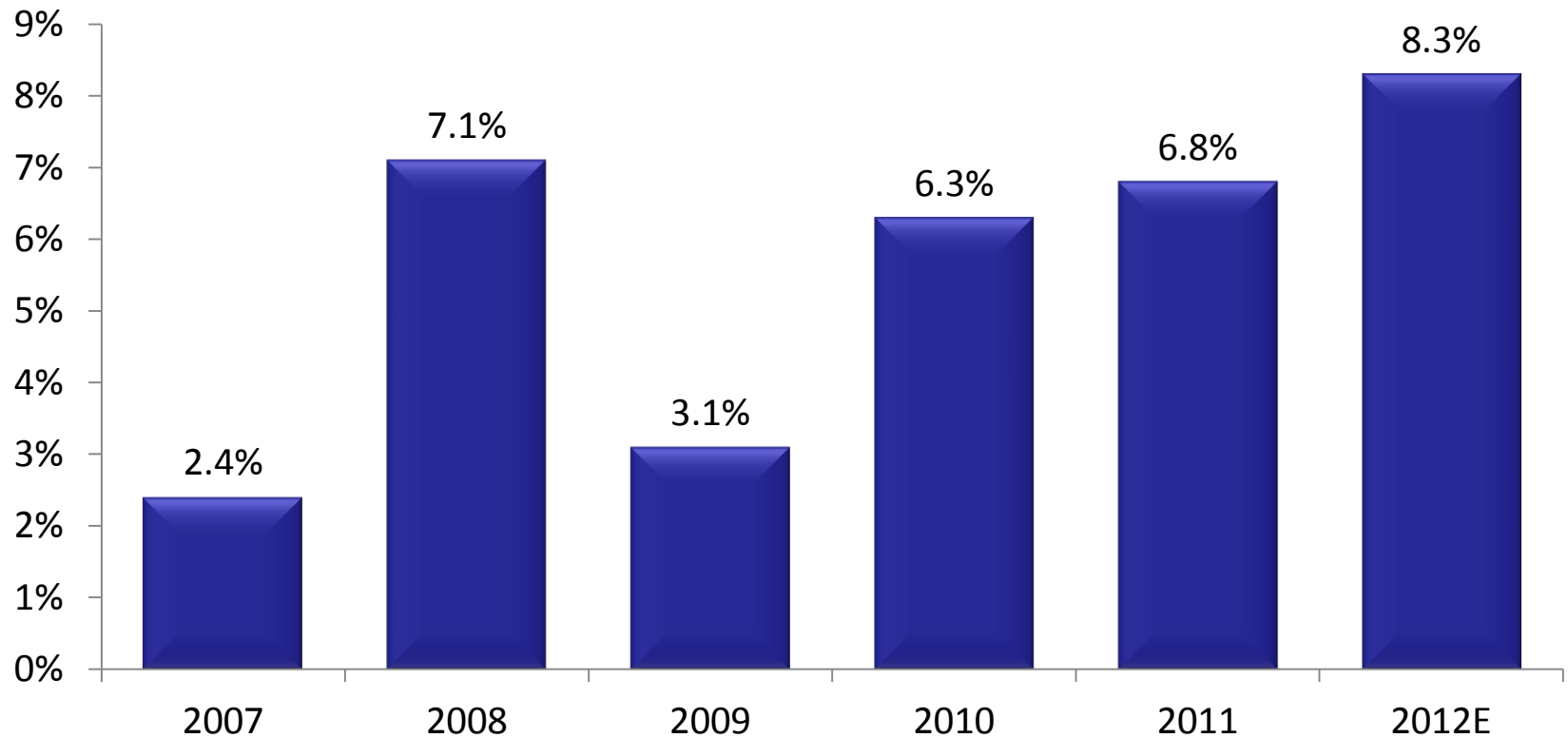


Retention at point of renewal as of December 31, 2011



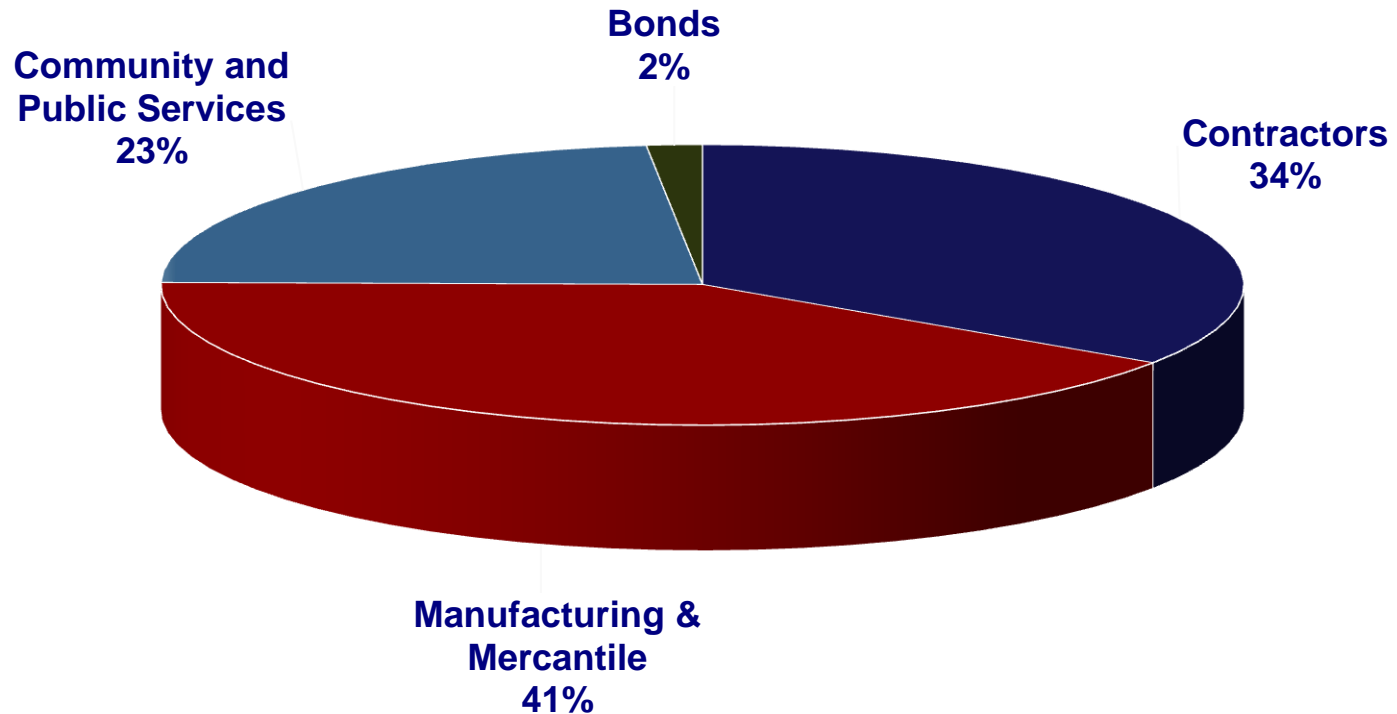
# Personal Lines Rate Success

**Blended In-force Rate**



# Premium by Strategic Business Unit

## 2011 Direct Premium Written



# Long-Term Shareholder Value Creation

