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Selective Insurance Group, Inc. *(SIGI)*

Q1 2013 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day everyone. Welcome to the Selective Insurance Group's First Quarter 2013 Earnings Release Conference 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, Jennifer DiBerardino. Thank you, you may begin.

Jennifer W. DiBerardino

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

Thank you. Good morning, and welcome to Selective Insurance Group's first quarter 2013 conference call. This call is being simulcast on our website and the replay will be available through May 25, 2013. 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.

Selective uses operating income, a non-GAAP measure, to analyze trends in operations. Operating income is net income, excluding the after-tax impact of net realized investment gains or losses, as well as the after-tax results of discontinued operations.

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 that will be made during this call are forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995.

Forward-looking statements are not 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 me today on the call are the following members of Selective's executive management team; Greg Murphy, CEO; Dale Thatcher, CFO; John Marchioni, EVP of Insurance Operations; and Ron Zaleski, Chief Actuary.

Now, I'll turn the call over to Dale to review the first quarter results.

Dale A. Thatcher

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

Thanks, Jen. Good morning. First quarter results exceeded our expectations with continued improving commercial and personal lines pricing and light catastrophe losses resulting in an overall statutory combined ratio of 96.8%.

Standard commercial, personal and E&S lines all have statutory combined ratios under 100%. For the quarter, we reported operating income per diluted share of \$0.36 compared to \$0.28 a year ago. Lower catastrophe losses drove the results offset by three items. One, a one-time holding company expense of \$0.04 per share related to a charge-off for the capitalized issuance costs of our junior subordinated note that we redeemed in the first quarter; an additional \$0.02 of interest expense; and an increase in our long-term employee compensation expense of \$0.04 per share compared to first quarter 2012 driven by the rise in stock price.

The first quarter statutory combined ratio of 96.8% was a 2.3 point improvement from a year ago quarter. Catastrophe losses in the quarter were only \$1.6 million pre-tax or 0.4 points, well below our annual expected budget of 3 points.

Our Hurricane Sandy catastrophe losses have remained within our estimates and we have had no further development from that storm. We have favorable prior-year casualty development of \$2 million or 0.4 points.

As announced earlier this month, we are freezing our pension plan effective March 31, 2016. Due to differences in pension accounting for GAAP and statutory, we have a statutory curtailment charge that affect the statutory combined ratio, but it has no impact on GAAP earnings or the GAAP combined ratio. As a result, the statutory combined ratio this quarter includes a \$5.8 million charge or 1.3 points from the curtailment of the plan. \$4.5 million or 1.0 points of curtailment charge is reflected in the statutory expense ratio in the quarter with the balance in allocated loss and loss adjustment expenses.

Total statutory net premiums written were up 7% in the quarter with standard commercial lines net premiums up 7% and E&S up 10%. Standard commercial lines renewal pure price was up 7.5% for the quarter and retention remained flat at 83% from a year ago.

The standard commercial lines statutory combined ratio was a strong 97.6% in the first quarter, including a 1.4 point pension charge. All standard commercial lines of business were under 100% combined ratio in the quarter with the exception of workers' compensation.

The statutory combined ratio for every line of business includes a charge of between 1.3 to 1.7 points related to the curtailment of the pension plan. Results ranged from a 77% statutory combined in BOP to a 98% in commercial auto. BOP results included 16.2 points of favorable development. Commercial property had a good quarter at 86.6% despite a \$2.1 million increase and non-cat property losses were 1.1 points.

Workers' compensation results of 118.9% statutory combined ratio were driven by adverse development of \$7 million or 11.1 points on the combined. More than half of the adverse development is the result of a single claim

dating back to the 1980s that increased by \$4 million with the balance driven by development in the 2012 accident year.

Personal lines net premium written grew 5% in the quarter to \$69 million and the statutory combined ratio was a profitable 92.4%, including the pension curtailment of 1.3 points. For personal lines, cat losses were only 0.7 points in the quarter compared to 4.4 points in 2012. Pricing continued to be strong in personal lines with renewal rate up 8.5% in the quarter and we're seeing the benefits of our pricing success in the results.

Net premium written for our E&S operations grew to \$28 million in the first quarter, up 10% from a year ago. The statutory combined ratio improved substantially to 98.2% from 120.3% a year ago, driven by earned premiums that now reflect the full operations of this business and a decrease in startup cost that we had in the first quarter of 2012.

Also included in the E&S results this quarter, is a 3.8 point benefit, related to a one-time reduction for the anticipated supplemental commission payments. Given the size of the E&S operations, the combined ratio could have some volatility in the short-term.

Turning to investments, first quarter after-tax net investment income was essentially flat at \$25 million compared to a year ago. The overriding factor affecting investment income is a pressure of sustained low interest rates on portfolio yield. Obviously, this dynamic is not unique to Selective and we have resisted taking on more risk in the form of lower credit quality or extended duration.

Year-over-year, fixed maturity income declined 4%, while alternative investment income increased 85% reflecting the strong M&A activity in the second half of 2012. While the majority of our alternative investments report on a one quarter lag, equity market performance is not entirely predictive of the performance of our alternative portfolio. This is largely due to the mix and vintage of our investments, which include energy, mezzanine debt, real estate and private equity. The after-tax yield on fixed maturity securities was 2.3% for the quarter, down about 26 basis points from the year ago period reflecting the continued low interest rate environment.

Fixed income new money rates average 1% after-tax in the quarter reflecting a high average credit quality of AA- and modest duration of new purchases. As we've stated, for every 25 basis point drop in portfolio yield, we lose 1 point of ROE, which subsequently requires a 1 point improvement in the combined ratio to offset this decline.

Invested assets increased 6% from a year ago to \$4.4 billion driven by increased operating cash flows and the net additional funds as a result of the \$185 million senior note offering and subsequent redemption of the \$100 million junior subordinated notes. Our overall fixed income portfolio maintains a high credit quality of AA- and duration of 3.4 years including short-term investments.

Compared to a year ago, the portfolio unrealized gain position improved from \$165 million to \$185 million pre-tax at March 31, 2013. Also noteworthy is the quarter-end unrecognized gain position in the fixed income held-to-maturity portfolio of \$36 million pre-tax or \$0.41 per share after-tax. Surplus and stockholders' equity remained strong at March 31, 2013 at \$ 1.2 billion and \$1.1 billion respectively.

Book value per share increased to \$20.46 from \$19.77 at December 2012 due to net income and an after-tax increase to equity as a result of the pension curtailment announced earlier this quarter. The curtailment created an after-tax increase to equity of approximately \$29 million or \$0.52 per share. Our premium to surplus ratio declined slightly from last quarter to 1.5 to 1, from 1.6 to 1 mainly due to the \$57 million in additional surplus we downstreamed to the insurance operations after the senior note issuance in February.

Now, I'll turn the call over to John Marchioni to review the insurance operations.

John J. Marchioni

Executive Vice President-Insurance Operations, Selective Insurance Group, Inc.

Thanks, Dale. Good morning. We are very pleased with our first quarter results. I believe we are reflective of our underwriting and pricing efforts to successfully maneuver a hardening, but not traditionally hard market. We've invested in many tools for our underwriters and claim specialists over the past few years throughout the soft market cycle and their effectiveness is beginning to manifest itself as expected in improving underlying profitability. We provide our underwriters with specific policy level guidance, allowing it to target the highest rate increases on the worse performing accounts while protecting retention on our best accounts.

In the first quarter, for standard commercial lines, we obtained 14% pure rate on our lowest quality accounts and held point of renewal retention at 75%. We obtained a 6% pure rate increase on our highest quality accounts, while they were retained at 90%. The achievement of 7.5% standard commercial renewal pricing in the quarter while retention remained strong, is a testament to our capabilities and our agency relationships.

New business continues to be challenging. Standard commercial lines new business was essentially flat in the quarter from a year ago at \$69 million. We carefully monitor the mix of new business by a number of different risk and pricing characteristics. As such, we remain confident in the quality of our new business overall. While we do see quality accounts being pushed into the market by some unsophisticated competitors, the level of quality new business accounts continues to lag, putting pressure on new business for the quarter.

The excess and surplus lines contract binding authority business is tracking in line with our expectations to achieve between 100% and 102% combined ratio for 2013. As we apply our Selective underwriting tools and discipline to this still relatively new book of business, we expect to see continued improvement to the 95% combined ratio range in 2014.

Pricing in the E&S market improved in the first quarter and we achieved 8.5% renewal price increases. Personal lines results in the quarter were strong, not only reflecting the lack of catastrophe losses, but also our targeted profitability initiatives for both homeowners and auto.

We achieved an overall 8.5% renewal price increase for personal lines in the quarter, while retention remained high at 87%. Growth was within our expectations in personal lines as we carefully push rate and work to improve our mix of business.

We continue to drive profitability in our homeowners' line as we increase rates across the book and make underwriting changes including raising deductibles to increase cost sharing.

Additionally in 2013, we've significantly tightened our underwriting appetite for mono-line homeowners. Our bi-parallel rating platform allows us to allocate reinsurance costs into our pricing structure in a very targeted fashion. We are targeting a combined ratio in the high 80s in a normalized catastrophe year.

For the first quarter, our homeowners line produced a combined ratio of 87.7% including a pension charge of 1.1 points while achieving renewal price increases of 11.4%.

For personal auto, we have been consistently getting price above loss cost trend, achieving 6.4% in the first quarter. We are increasing the geographic diversification of our auto book and have made progress on increasing the age of the book from three to 3.2 years outside of New Jersey.

We believe that the continued rate action and ongoing improvement in the underwriting mix of business and maturity of the auto book will continue to drive improvement in this line for long-term success.

We feel very good about our progress in underwriting and claims and are on target to achieve our 2014 goals, as we previously disclosed.

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

Gregory E. Murphy

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

Thank you, John and good morning. Market conditions improved in all areas of our insurance operations led by 8.5% renewal price increases in both personal lines and E&S. While commercial lines renewal price reached 7.5% retention, another key indicator of market stability was solid. Due to current state of the economy, I believe a low interest rate environment will continue through 2014, and will lower after-tax yields most likely through 2016. Clearly, this calls for significant ongoing price increases.

I've been in the insurance business for 33 years, and thinking about this low interest rate environment, one has to go all the way back to 1950 to find interest rates at comparable levels. The ongoing ratcheting down of investment yield is forcing companies to significantly improve their underwriting margins, which can only be achieved through substantial industry-wide renewal price increases.

As an organization, Selective has successfully balanced price increases with retention for the last 16 quarters. Clearly, companies that try to socialize rate in this environment will only hurt their renewal business and play into the competitive advantage that we've created with our pricing and underwriting sophistication.

We have a long history of being an underwriting company and we have the best agents in the business. Our underwriting and claims personnel are using tools such as the dynamic portfolio manager and fraud analytics. But most importantly, our agents understand and support their deployment. We recently met with 120 Presidents Club agents and they overwhelmingly applaud our renewal pricing strategy and they're working with us to find quality new business opportunities.

At the end of 2011, we deployed a three-year profit improvement plan to achieve a 92% combined ratio, excluding catastrophe losses, by year-end 2014. The biggest driver of the plan is to achieve renewal price increases of between 5% and 8%. For 2012, our renewal price target was 5.8% versus our actual achievement of 6.3%. For 2013, we believe we'll meet our 7.6% commercial and 7% personal lines pricing targets.

We're in a solid position to exceed our three-year pricing portion of our profit improvement plan. Our loss trend is estimated to remain stable and our plan includes claims initiatives designed to lower the combined ratio. The most significant initiatives include medical cost containment through extensive network renegotiations, enhanced nurse case management, sophisticated fraud and recovery predictive models, panel legal fee claim management, as well as a complex claim unit.

We expect these initiatives will have the greatest impact on our workers' compensation and general liability lines of business. Given the current rate environment, we're not stretching for yield through excess risk in our investment portfolio. When so much liquidity is competing for yield, we feel markets do not adequately compensate investors for extending duration or reaching down in credit quality. As a result, new bond issues are

heavily oversubscribed and end up aggressively priced. Therefore, we'll remain – retain our investment discipline and focus on the high quality fixed income opportunities while maintaining our duration at around 3.5 years.

After one quarter, our expectations for the full-year 2013 remain a statutory combined ratio of 96% excluding catastrophe losses and no prior – additional prior favorable or unfavorable development, a 3 point estimate for catastrophe losses, after-tax investment income of approximately \$90 million to \$95 million and weighted average shares of approximately \$56 million.

Now, I'll turn the call over to the operator for your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Vincent DeAugustino with KBW. Your line is open.

Vincent M. DeAugustino

Analyst, Keefe, Bruyette & Woods, Inc.

Hi, and good morning. Thanks for -

Gregory E. Murphy

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

Good morning.

Vincent M. DeAugustino

Analyst, Keefe, Bruyette & Woods, Inc.

– taking the questions. I just wanted to focus most of my questions on workers comp. I guess we've heard from a number of insurers that they're focusing more on smaller worker comp accounts. And I'm just curious if that sort of broad shift in account size appetite in the market has changed your return expectations for small account business or even if you're seeing more competition in that space or as of right now, it's just rhetoric?

John J. Marchioni

Executive Vice President-Insurance Operations, Selective Insurance Group, Inc.

Vincent, this is John. We've certainly and we've talked about this in the past over the last year or so, we've really changed our focus from a new business perspective, anywhere from a renewal perspective to focus as well on lower hazard, smaller comp classes of business.

I would say clearly when you look at the competition, for that segment of the comp market, there definitely is more competition. You still see some higher commission rates for that sort of business and you definitely see more price competition for that sort of business.

So I think that's where the margins have been. When you look at the overall performance of the line being poor, certainly that part of the market has performed a little better over time, which is why companies are pursuing it. And now it's just a matter of making sure that you don't get so aggressive to pursue that business and change your mix of business that you're going to hurt the profitability on that side of the book.

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

A

And overwhelming, I would say, we're an account underwriter. We don't – we're not running at the mono-line, after mono-line comp. We make sure that the comp, that we do, we're very disciplined in the underwriting side, in terms of how we grade states, how we look at different classes of business. So I think we try to make sure, we pick the right opportunities to do that, but when we go into an account, we're writing the whole account.

So that's how we look at the profitability of the business overall. And I know that the focus has a tendency to be on workers' comp. We understand that workers' compensation is running above where we would like to see it. There is a little bit of unusual activity in the quarter, that's kind of pumped those numbers up a bit, but we feel that a lot of our claim initiatives are directed at the comp line to bring the cost of goods sold down, but also that there is an opportunity to write good comp in the marketplace as part of an account profile.

Vincent M. DeAugustino*Analyst, Keefe, Bruyette & Woods, Inc.*

Q

That's really helpful. And to your point, understanding the volatility and that workers' comp is a pretty long tailed line. But I'm little curious if you're seeing any near-term changes in frequency or severity in recent quarters, any early indicators that we may be seeing some favorable or adverse trends, some of the data we're looking at maybe pointing to slightly improving frequency trends.

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

A

Yeah. We see that ongoing frequency drop. We see a little bit of severity spike, but just quarter-to-quarter it's just two – you got to look at these trends on a more stable basis. It is something that we are very closely monitoring including the rate at which we dispose claims. I mean there are a lot of things that we look at comp holistically to manage that inventory.

Vincent M. DeAugustino*Analyst, Keefe, Bruyette & Woods, Inc.*

Q

Okay, perfect. And then one last one, if I could sneak it in. Just, John with your comments about new business growth, and you guys have clearly done a great job that's leading the industry both in the timing of rate increases and the magnitude and understanding the net investment income pressure and the multi-year drain on ROE that's going to drive. Even understanding that at some point just because of your rate trajectory above the industry, at some point should we expect you to take your foot off the gas and see new business growth accelerate in maybe 2014 or just any thoughts that you might have there?

John J. Marchioni*Executive Vice President-Insurance Operations, Selective Insurance Group, Inc.*

A

Well, it's a great question, and while we feel good about our renewal pricing strategy, and our ability to maintain strong retention levels, new business continues to be a little bit of a wildcard. We pride ourselves on being disciplined new business underwriters and if you look over the last several years as the market cycle started to change, you saw our new business performance kind of move directionally based on the quality of accounts in the marketplace. I think as companies are now getting into their second renewal cycle, we do expect there to be more quality accounts getting pushed out into the marketplace that we could identify with our tools and price accordingly and start to acquire. So, yeah, we do think new business presents a growing opportunity for us as we move deeper into this market cycle.

Vincent M. DeAugustino

Analyst, Keefe, Bruyette & Woods, Inc.

Perfect. Thanks so much.

Q

Operator: Our next question comes from Scott Heleniak, RBC Capital Markets. Your line is open.

Scott G. Heleniak

Analyst, RBC Capital Markets LLC

Hey, thanks. Good morning.

Q

Gregory E. Murphy

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

Good morning, Scott.

A

Scott G. Heleniak

Analyst, RBC Capital Markets LLC

Just a couple of quick questions. First on E&S, just wondering if you could give us an update on kind of what your expectations are for growth this year, you grew 10%, and just wondering if you might be able to see kind of double-digits for 2013? And then the other question just on E&S was just related to the margins. And I know you mentioned the benefit of supplemental commission. Just wondering if there is anything else at play where you were able to get the margin improvement so quickly relative to last year.

Q

Dale A. Thatcher

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

On the growth front, we don't provide specific projections for growth for any of our segments. Obviously we're pleased with the 10% growth that we were able to achieve in the first quarter. And we do recognize that there is substantial opportunity in the E&S space both with – strictly with our wholesalers in general, but also with the idea of getting our retail agents to drive business through our new wholesale partners. So all that we think provides plenty of opportunity, but we don't have any specific projections on that.

A

Scott G. Heleniak

Analyst, RBC Capital Markets LLC

Okay. And then anything on the margins, any other comment?

Q

John J. Marchioni

Executive Vice President-Insurance Operations, Selective Insurance Group, Inc.

Yeah. When we disclosed the results in the prior quarter, clearly we weren't satisfied with the profitability of the book and said we were taking some pretty aggressive actions and you're seeing that now start to come through the book when you look at the performance in the first quarter from a profitability perspective. Certainly in the short term, that does put pressure on the top line growth, but to be able to see that kind of loss ratio improvement and also grow the book in the quarter by 10%, we're very happy with that.

A

And just to reinforce what Dale said, while not providing specific guidance on top line growth, you've got three dynamics at work there. You've got business starting to migrate from the standard market, which is a real opportunity for us. You've got us building out our wholesale agency partners plan across the footprint over the next year to two. And then we think there is a real opportunity. We're starting to see some real traction from the

business flowing from our retail partners. So, those three factors we think really position us well, especially now that we've gotten the profitability of that book on a path to where we want it to be.

Scott G. Heleniak

Analyst, RBC Capital Markets LLC

Okay.

Gregory E. Murphy

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

Yeah. I would only add to that. I mean obviously this is – part of this strategy was to get into the market, and this was to garner a good shelf space opportunity inside our retail agents as well as expand out the overall portfolio. So, we feel that long-term, this business as we indicated to you will not be a huge percentage of our overall inventory, but will be a sizable enough percentage that it'll help provide some better buoyancy to our long-term performance, which is another reason why we've entered this market at this opportunity.

Scott G. Heleniak

Analyst, RBC Capital Markets LLC

Okay. And then just on workers' comp, just wondering if you could touch on the one claim you mentioned, the older claim that dates back to the 80s, is that – is that fully dealt with, you feel like now?

Dale A. Thatcher

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

Yes, it is. We can't provide any specifics to that particular claim, but every once in a while, you'll have something pop or some circumstances change on an older claim, and that was the case with that.

Scott G. Heleniak

Analyst, RBC Capital Markets LLC

Okay. So nothing else really unusual then in comp?

Dale A. Thatcher

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

No.

Scott G. Heleniak

Analyst, RBC Capital Markets LLC

Okay. And then the other question I had was just on the loss reserves were down pretty significantly versus the quarter. Just wondering if you could talk about what drove that big decline there?

Dale A. Thatcher

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

Basically the biggest thing is the flood – National Flood Program. Remember, we had about \$900 million worth of reserves sitting on the books at the end of the year for Sandy. That's all 100% reinsured by the federal government. But under GAAP rules, you have to gross up your balance sheet to show both the flood reserve and the reinsurance recoverable. So, that's the big drop.

Scott G. Heleniak

Analyst, RBC Capital Markets LLC

Q

Got it. Okay, the flood then. All right. And the only other question I had was just the – you guys mentioned – I know you've mentioned this before too, the increase in the deductibles on the homeowners book, just wondering what is the average deductible now and where was that a couple of years ago? How much have you increased that? I'm assuming it's pretty much across the board.

John J. Marchioni

Executive Vice President-Insurance Operations, Selective Insurance Group, Inc.

A

Yeah. This is John. So, we increased the deductibles to a \$1,000 or \$1,500 depending on roof age. And generally speaking, the book prior to that was at a \$500 deductible on average. You probably still had some others that may have pushed it up or down depending on the state. But we're still in the process of working through our renewal inventory with the new deductible structure. So it's moving up generally from \$500 on average to \$1,000.

Gregory E. Murphy

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

A

And if I can come back to your last question for a second too. I think it'd be – focusing on the GAAP on the reserve change. I think if you looked at the statutory reserves, you get the benefit of washing that all out and the reserve ratio was a very healthy 9% this quarter. So, that's the ratio that we focus on, which is the change in reserves over earned premium. So -

Scott G. Heleniak

Analyst, RBC Capital Markets LLC

Q

Yeah.

John J. Marchioni

Executive Vice President-Insurance Operations, Selective Insurance Group, Inc.

A

And I will add a little bit more too, is the other way to look at that is, if you look again back at the GAAP, you'll see the exact same drop on the reinsurance recovery line.

Scott G. Heleniak

Analyst, RBC Capital Markets LLC

Q

Yeah. No, it was just the flood part of it that I was I guess missing there. So, okay. That's all I had. Thanks.

John J. Marchioni

Executive Vice President-Insurance Operations, Selective Insurance Group, Inc.

A

Thank you.

Operator: Our next question comes from Ray Iardella, Macquarie. Your line is open.

Dale A. Thatcher

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

A

Good morning, Ray.

Chris Maimone

Analyst, Macquarie Capital (USA), Inc.

Q

Hey, good morning, this is actually Chris, calling for Ray. Thanks for taking the question. I was just, excuse me, just curious, the increase in other expenses year-over-year is about \$5 million, is that where the debt retirement charge flowed through the income statement?

Dale A. Thatcher

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

A

Right. You've got that going through there. You also have the fact that in the first quarter the increase in the stock price also impacted that because the long-term rewards are mark-to-market. So, there are long-term awards of stock or restricted stock units. So that flows through there also.

Chris Maimone

Analyst, Macquarie Capital (USA), Inc.

Q

Okay. So, is it possible to quantify the breakdown in those two components or it's just?

Dale A. Thatcher

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

A

The amortization of the debt expense was \$2.2 million after-tax compared to basically nothing the year before. So, that's about where the \$0.04 comes in. And then the long-term compensation was about \$5.7 million after-tax in the first quarter of 2013 compared to \$3.5 million in the first quarter of 2012.

Chris Maimone

Analyst, Macquarie Capital (USA), Inc.

Q

Got you. Okay. That's really helpful. Thank you. Next question was on personal auto, I noticed that the loss ratio improved nicely year-over-year. Was there anything driving that besides pricing?

Gregory E. Murphy

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

A

Pretty much the combination of pricing and underwriting efforts. It was a small, small amount of favorable development in there, but not I mean, that's not what pushing it around. I think you're seeing the ongoing benefits of all of the efforts that we've have been working on and we've been talking to you guys year-after-year about. The fact that the home story was more of a lag in story overtime and that the home would be a much more aggressive story relative to what we're doing in deductibles, pricing and other initiatives. So, I think you're just seeing, starting to see some of the benefits of that.

Chris Maimone

Analyst, Macquarie Capital (USA), Inc.

Q

Got you. Got you. Great, and then one last one. Did you guys quantify or give us an update relative to maybe the previous estimate you had had regarding the amount of revenues in your flood claims adjusting revenues from Sandy for the quarter?

Dale A. Thatcher

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

A

We've not updated that, no. Basically, all of our Sandy estimates are holding pretty strong.

Chris Maimone

Analyst, Macquarie Capital (USA), Inc.

Q

Okay. And so, you're not able to quantify what the contribution to Sandy related flood claims adjusting revenues is though?

Dale A. Thatcher

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

A

Well. Sandy last year contributed \$16 million for the 2012 year.

Chris Maimone

Analyst, Macquarie Capital (USA), Inc.

Q

Okay. All righty. That's it for me. Thanks, very much.

Operator: [Operator Instructions] Our next question comes from Ron Bobman, Capital. Your line is open.

Ron D. Bobman

Analyst, Capital Returns Management LLC

Q

Hi, thanks a lot, and nice to see the continued progress and improvement on a variety of fronts. I just had a couple of questions. I haven't really talked much about Sandy, but I'd be curious to just to hear to your thoughts sort of on an a variety of subjects surrounding Sandy, whether it'd be sort of claims handling, sort of rates of claims being closed, late submissions of claims put in, sort of just generally what you're experiencing, and maybe relative to what you thought in early days?

And then I have some specific questions a little bit Sandy related. I would imagine that your E&S opportunities could sort of mushroom in size by virtue of Sandy, is that – is my sort of intuitive thought right on that?

Gregory E. Murphy

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

A

Yes, so this is -

Ron D. Bobman

Analyst, Capital Returns Management LLC

Q

And then, sorry, I think I got too many in.

Gregory E. Murphy

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

A

Keep going.

Ron D. Bobman

Analyst, Capital Returns Management LLC

Q

Well, my last one was, when you do close this Sandy claim, I'm wondering how often you actually get a release from the claimant? Is that typical, minority, majority of the cases, and that's it from me. Thanks, everybody.

John J. Marchioni

Executive Vice President-Insurance Operations, Selective Insurance Group, Inc.

A

All right. This is John. I'll try to take some of this and then Dale could certainly follow on. To me, when you talk about the Sandy experience, the headline is what Dale already said, which is the estimates that we put out there at the end of the fourth quarter continued to hold strong, which I think is a positive.

I think it also would indicate that we've continue to work through the inventory of claims on both the flood and the P&C side in a very positive way and are comfortable with our disposal rates on those claims and honestly I think we've gotten very positive feedback from our agency partners in terms of the service standards we've been able to maintain despite the significant nature of that event right in our footprint.

Ron D. Bobman

Analyst, Capital Returns Management LLC

Q

Right.

John J. Marchioni

Executive Vice President-Insurance Operations, Selective Insurance Group, Inc.

A

In terms of the opportunity for E&S, I would say no. And primarily why I say no is, our E&S operations are not really a heavy property market and certainly not a property market for wind-exposed property. So, we wouldn't view that as a real opportunity for us on the E&S side.

Ron D. Bobman

Analyst, Capital Returns Management LLC

Q

Okay. And how about the release question?

John J. Marchioni

Executive Vice President-Insurance Operations, Selective Insurance Group, Inc.

A

In terms of – we don't see a lot of reopened activity if that's the question. As we close claims out on the cat side, we'd certainly monitor reopens, but I don't think there is anything outstanding to report relative to reopening of claims after they're closed out.

Ron D. Bobman

Analyst, Capital Returns Management LLC

Q

Okay. And what percentage are you through the claim, are you 75% closed, 25% closed, could you give a ballpark? On the P&C side, not the flood.

Dale A. Thatcher

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

A

Right. I mean, basically we estimate they were above 90%.

Ron D. Bobman

Analyst, Capital Returns Management LLC

Q

Wow, that's great.

Dale A. Thatcher

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

A

On both sides of that.

Ron D. Bobman

Analyst, Capital Returns Management LLC

Thanks, Dale.

Q

Dale A. Thatcher

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

I think there is always a possibility if it is starting to get reopen or if something gets determined, but we're well on our way.

A

Ron D. Bobman

Analyst, Capital Returns Management LLC

Great. Hope it continues. Thank you.

Q

Operator: [Operator Instructions] I am showing no further questions from the phone lines at this time.

Gregory E. Murphy

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

Well, thank you very much for participating in this morning's call. If you have any follow-up matters, please contact Jennifer or Dale, so thank you very much.

Operator: That does conclude today's conference. Thank you for participating. You may disconnect at this time.

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