FITCH AFFIRMS SELECTIVE INSURANCE'S RATINGS; OUTLOOK STABLE

Fitch Ratings-Chicago-07 November 2011: Fitch Ratings has affirmed Selective Insurance Group, Inc.'s (Selective) ratings as follows:

--Issuer Default Rating (IDR) at 'A-';
--Senior debt at 'BBB+';
--Junior subordinated debt at 'BBB-'.

Fitch has also affirmed the 'A+' Insurer Financial Strength (IFS) ratings of the members of the Selective intercompany pool. The Rating Outlook is Stable. A full rating list is shown below.

The affirmation of Selective's ratings reflects the company's conservative balance sheet with solid capitalization and reserve strength as well as underwriting performance in line with peers. The ratings continue to reflect Selective's disciplined underwriting culture, strong independent agency relationships, strong loss reserve position, and improved diversification through continued efforts to reduce its concentration in New Jersey.

The company's underwriting results during the first nine months of 2011 were significantly impacted by $73 million of after-tax catastrophe losses including Hurricane Irene, which represented the largest single catastrophe loss in Selective's history. The negative impact of these above average losses were somewhat offset by casualty reserve releases of $19 million by the company in the first nine months of 2011. Fitch notes that Selective's year-to-date calendar year underwriting results include a lesser impact from favorable loss reserve development than regional peers.

Selective's combined ratio (GAAP) through nine-months 2011 deteriorated to 110.5% from 102.0% during the same period in 2010. Consolidated GAAP net earnings were $4 million for the nine months ending Sept. 30, 2011, down from $41.7 million in the prior year period.

Fitch views Selective's historical profitability as better than peers but results have declined in recent years due to cyclical underwriting pressure, weaker investment performance and above average catastrophe losses.

Selective entered into the Excess and Surplus lines (E&S) market in 2011 as it entered into a renewal rights transaction for contract binding authority E&S business from Alterra Capital Holdings, Ltd. In the 3rd quarter, Selective additionally purchased Montpelier U.S. Insurance Company (MUSIC) from Montpelier Re Holdings, Ltd., giving Selective the platform on which to write future E&S business. Fitch's rating action is neutral to these transactions but believes they present the opportunity for positive diversification within Selective's book of business.

Fitch continues to believe that Selective's balance sheet is conservative and that, as of Sept. 30, 2011, capitalization is good, with stockholder's equity and statutory surplus maintaining strong positions at $1.1 billion and $1.0 billion respectively. Fitch believes that Selective maintains adequate capital and uses a moderate amount of operating leverage (annualized net premium written to equity). At Sept. 30, 2011, operating leverage was 1.39 times (x), versus 1.30x at year-end 2010.

Fitch also believes that Selective employs a moderate amount of financial leverage, has ample financial flexibility, and limited near-term liquidity needs. The company's unadjusted debt-to-total capital ratio is roughly 19.4% at Sept. 30, 2011.

Historically, Selective's strong regional presence and small and middle market commercial lines focus has allowed for premium rate increases above industry experience. Selective conducts a sizable portion of its business in the state of New Jersey; however, the company has expanded into the Midwest to diversify its insurance exposure out of New Jersey and the Northeast U.S. In 2010, the top five states accounted for 61% of total net written premium, with New Jersey at 26%, down from 33% as recently as 2006.

Key rating triggers that could lead to a downgrade include ongoing underwriting weakness, demonstrated by a calendar year combined ratio averaging over 105% for 2011 and 2012, and a material deterioration in current balance sheet strengths. Fitch's rating rationale anticipates operating leverage as measured by net written premiums to policyholder surplus to remain below 1.7x, financial leverage to remain below 25%, and the lead property/casualty subsidiary's NAIC RBC ratio (company action level) to remain greater than 225%.

Fitch considers a rating upgrade to be unlikely in the near term due to Selective's current company profile including its regional concentration, smaller capital base relative to larger peers, and pressured underwriting results. Key rating drivers that could lead to an upgrade over the long term include a material and sustained improvement on recent underwriting performance that causes Fitch to view Selective as meaningfully better than peers and the industry, and material capital growth with all else being equal.

Fitch has affirmed the following ratings with a Stable Outlook:

Selective Insurance Group, Inc.
--IDR at 'A-';
--$100 million senior notes 6.7% due Nov. 1, 2035 at 'BBB+';
--$50 million senior notes 7.25% due Nov. 15, 2034 at 'BBB+';
--$100 million junior subordinated notes 7.5% due Sept. 27, 2066 at 'BBB-'.

Selective Insurance Company of America
Selective Way Insurance Company
Selective Insurance Company of South Carolina
Selective Insurance Company of the Southeast
Selective Insurance Company of New York
Selective Insurance Company of New England

Selective Auto Insurance Company of New Jersey
--IFS at 'A+'.

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:
--'Insurance Rating Methodology' (Sept. 22, 2011).

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Insurance Rating Methodology
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=651018