

## **FITCH AFFIRMS SELECTIVE INSURANCE'S RATINGS; OUTLOOK STABLE**

Fitch Ratings-Chicago-11 April 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 very good 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.

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's combined ratio (GAAP) for 2010 deteriorated to 101.6% from 99.8% in 2009.

The company's underwriting results in 2010 were significantly impacted by \$56 million of pre-tax catastrophe losses representing the largest single year catastrophe total that Selective has ever incurred. The negative impact of these above average losses were somewhat offset by reserve releases of \$44 million by the company in 2010, however, Fitch notes that Selective's recent calendar year underwriting results include a lesser impact from favorable loss reserve development than regional peers.

Fitch continues to believe that Selective's balance sheet is conservative and that, as of Dec. 31, 2010, capitalization is very good, with stockholder's equity and statutory surplus growth returning capital to 2007 levels after incurring a large reduction during the recession due primarily to investment losses. Fitch believes that Selective maintains adequate capital and uses a reasonable amount of operating leverage (net premium written to surplus). At year-end 2010, leverage was 1.29 times (x), versus 1.46x in 2009.

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 20% at Dec. 31, 2010.

Historically, Selective's strong regional presence and small and middle market commercial lines focus has allowed for premium rate increases above industry experience and manageable catastrophe risk. 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.

Fitch expects both the commercial and personal lines markets to remain very competitive in the near term; however, Fitch believes Selective will continue to maintain adequate pricing and conservatively manage its exposures and will ultimately be willing to sacrifice growth or market share if necessary.

Key rating drivers that could lead to a downgrade include ongoing underwriting weakness, demonstrated by a calendar year combined ratio averaging over 104% 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](http://www.fitchratings.com)'.

Applicable Criteria and Related Research:

--'Insurance Rating Methodology' (March 31, 2011);

- 'Non-Life Insurance Rating Methodology' (March 31, 2011);
- 'Fitch's Approach to Rating Insurance Groups' (Dec. 14, 2010);
- 'Equity Credit for Hybrids & Other Capital Securities' (Dec. 29, 2009);
- 'Rating Hybrid Securities' (Dec. 29, 2009).

Applicable Criteria and Related Research:

Insurance Rating Methodology

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=614266](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=614266)

Non-Life Insurance Rating Methodology

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=604366](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=604366)

Fitch's Approach to Rating Insurance Groups

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=586765](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=586765)

Equity Credit for Hybrids & Other Capital Securities - Amended

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=493112](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=493112)

Rating Hybrid Securities

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=493086](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=493086)

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