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Research Update:

Selective Insurance Group Inc. Outlook Revised To Positive From Stable; Ratings Affirmed

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Research Update:

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Overview

- Selective's capital adequacy has strengthened in recent years and is currently redundant at the very strong level.
- We are affirming our ratings on Selective and revising the outlook to positive from stable.
- The positive outlook reflects our view of management's ongoing efforts to improve the company's geographic and product diversification and reduce risk concentrations in catastrophe-prone areas.

Rating Action

On Oct. 8, 2014, Standard & Poor's Ratings Services affirmed its ratings on Selective Insurance Group Inc. and its insurance operating subsidiaries (collectively Selective), including its 'BBB-' long-term counterparty credit rating on the parent. At the same time, we revised our outlook on the group to positive from stable.

Rationale

Selective's capital adequacy has strengthened in recent years, principally because of organic growth in surplus. Capital adequacy is currently redundant at the very strong level. Our view is shaped by a modest improvement in Selective's operating performance and the company's stronger natural catastrophe reinsurance program that includes an additional layer of protection added in 2014. Although we view management's strategic plan that incorporates risk/return considerations in capital management, allocation, and underwriting positively, the company needs to show sustained improvement in its operating performance to indicate successful execution of management's strategy.

We expect the company to report a statutory combined ratio in the 97%-99% range for 2014-2015, which includes 4.9 points of catastrophe losses for 2014 and 4.5 for 2015. We also expect Selective's capital adequacy to remain redundant at the very strong level. We expect net premiums written to increase 7%-8% in 2014-2015 and net income to average about \$120 million (excluding realized investment gains/losses) during the same period.

The ratings reflect our view of the group's strong business risk profile (BRP) and strong financial risk profile (FRP), built on its strong competitive position and very strong capital and earnings. Under our criteria, Selective's

strong BRP and strong FRP lead to a possible anchor of either 'a' or 'a-'. We assigned the latter because we view Selective as exposed to potentially volatile operating performance during a heightened natural catastrophe season. The ratings also reflect the structural subordination of Selective Insurance Group Inc. to its insurance subsidiaries.

Outlook

The positive outlook reflects our expectation that Selective will steadily improve its operating performance and that its capital adequacy will remain redundant at the very strong level.

Downside scenario

We might lower our ratings if, contrary to our expectations, earnings weaken to substantially less than our base-case assumptions, capital adequacy deteriorates to less than a strong level for a prolonged period, or weakened fixed-interest coverage consistently falls to less than 4x.

Upside scenario

We could raise the ratings in the next 18 months to two years if management's efforts in diversifying the company's geographic concentration in natural-catastrophe prone areas, along with other initiatives, are successful in improving the company's operating performance and we determine that Selective's very strong capital adequacy is sustainable.

Related Criteria And Research

- Group Rating Methodology, Nov. 19, 2013
- Insurers: Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Selective Insurance Group Inc.		
Counterparty Credit Rating		
Local Currency	BBB-/Positive/--	BBB-/Stable/--

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Selective Insurance Co. of America
Selective Way Insurance Co.
Selective Insurance Co. of the Southeast
Selective Insurance Co. of South Carolina
Selective Insurance Co. of NY

Counterparty Credit Rating

Local Currency	A-/Positive/--	A-/Stable/--
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Financial Strength Rating

Local Currency	A-/Positive/--	A-/Stable/--
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Ratings Affirmed

Selective Insurance Group Inc.

Senior Unsecured	BBB-
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