MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Selective's ratings (senior debt at Baa2); outlook remains negative

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New York, August 13, 2014 -- Moody's Investors Service has affirmed the Baa2 senior debt rating of The Selective Insurance Group, Inc. (Selective; NASDAQ: SIGI) and the A2 insurance financial strength (IFS) ratings of the group's operating subsidiaries. In the same action, Moody's has assigned A2 IFS ratings to MESA Underwriters Specialty Insurance Company, Selective Casualty Insurance Company, and Selective Fire and Casualty Insurance Company, which are all members of the group's intercompany pooling agreement. The outlook on the ratings remains negative.

RATINGS RATIONALE

According to Moody's, the ratings of Selective reflect its solid regional franchise with established independent agency support, solid risk adjusted capitalization, strong asset quality, and recently improving underwriting profitability. The company also makes good use of technological tools to service agents, increase efficiency and monitor performance. These strengths are offset by historically weak and volatile underwriting profitability, significant gross exposure to catastrophes, limited scale in its personal lines portfolio, and meaningful financial leverage.

"While Selective's profitability improved during 2013 and through the first half of 2014, the negative outlook reflects the challenges Selective faces in maintaining the pace and consistency of profitability as well as further reductions in its segment concentrations," said Pano Karambelas, Moody's Vice President." As a result of underwriting efforts over the last three years including high single-digit countrywide rate increases, the company posted a 92.7% ex-catastrophe combined ratio for the first six months of 2014 compared with 95.5% (ex-catastrophe) for the same period in 2013. However, Selective's first half 2014 results were affected by significant catastrophe and non-catastrophe related weather losses (6.7 combined ratio points).

Although near-term underwriting earnings will benefit from the earn-out of recently implemented rate increases, the company continues to post poor underwriting results (108.8 combined ratio for the first half of 2014) in its workers' compensation line (20% of standard commercial lines premium volume). In addition, we believe the company may be challenged to generate further significant margin expansion given a slowdown in the pace of rate firming across the commercial lines sector over the next year. While Selective continues to reduce its historic exposure to contractors business within its general liability line, its concentration to this segment remains high.

Selective continues to focus on improving its profitability by expanding its geographic footprint and making use of technological tools to target rate increases while maintaining healthy renewal retention levels. The company is also implementing a number of initiatives to improve the performance of its personal lines business, which has faced challenges in maintaining stable profitability.

Factors that could lead to a stable outlook include: 1) improved underwriting performance with combined ratios below 100%; 2) returns on capital consistently at or above 6%; 3) maintenance of pre-tax interest coverage above 6x; 4) gross underwriting leverage less than 4x; 5) adjusted financial leverage at or under 30%. Factors that could lead to a downgrade include: 1) weak underwriting profitability with combined ratios at or above 103%; 2) returns on capital below 6%; 3) interest coverage below 4x; 4) increased underwriting leverage (4.5x or higher); 5) decline in shareholders' equity by more than 10%; 5) Increased adjusted financial leverage over 35%.

The following ratings have been affirmed with a negative outlook:

Selective Insurance Group, Inc. -- senior unsecured debt at Baa2, senior unsecured shelf at (P)Baa2, senior subordinate shelf at (P)Baa3, junior subordinate shelf at (P)Baa3, junior subordinate debt at Baa3 (hyb), and preferred shelf at (P)Ba1;

Selective Insurance Company of America -- insurance financial strength at A2;

Selective Way Insurance Company -- insurance financial strength at A2;

Selective Insurance Company of South Carolina -- insurance financial strength at A2;

Selective Insurance Company of the Southeast -- insurance financial strength at A2;

Selective Insurance Company of New York -- insurance financial strength at A2;

Selective Insurance Company of New England -- insurance financial strength at A2; and

Selective Auto Insurance Company of New Jersey -- insurance financial strength at A2.

The following ratings have been assigned with a negative outlook:

MESA Underwriters Specialty Insurance Company -- insurance financial strength at A2;

Selective Casualty Insurance Company -- insurance financial strength at A2;

Selective Fire and Casualty Insurance Company -- insurance financial strength at A2.

Selective is a New Jersey based holding company for ten insurance subsidiaries. Commercial lines insurance, consisting primarily of general liability, workers' compensation and commercial auto, comprises approximately 76% of the company's total net written premiums, while personal lines (17%) and excess and surplus (7%) constitute the balance of the business. For the first six months of 2014, Selective reported net premiums written of $957 million, net income of $47 million, and as of June 30, 2013 reported total assets of $6.5 billion, and shareholders' equity of $1.2 billion.

The principal methodology used in this rating was Global Property and Casualty Insurers published in December 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Moody's insurance financial strength ratings are opinions of the ability of insurance companies to pay senior policyholder claims and obligations. For more information, visit our website at www.moodys.com/insurance.

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