

FITCH AFFIRMS SELECTIVE INSURANCE'S RATINGS; OUTLOOK REMAINS NEGATIVE

Fitch Ratings-Chicago-14 January 2014: Fitch Ratings has affirmed Selective Insurance Group, Inc.'s (Selective) ratings as follows:

- Issuer Default Rating (IDR) at 'A-';
- Senior 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 remains Negative. A full rating list is shown below.

Key Rating Drivers

The Negative Outlook reflects Selective's increased levels of statutory and financial leverage along with a modest deterioration in NAIC risk-based capital (RBC) levels. The outlook is also reflective of modest deterioration of operating earnings-based interest coverage that had been present in recent periods relative to historical performance, but has shown improvement in 2013.

The affirmation of Selective's ratings reflect the company's improved underwriting results, strong independent agency relationships, solid loss reserve position, and enhanced diversification through continued efforts to reduce its concentration in New Jersey.

Selective's combined ratio (GAAP) improved to 97.9% in the first nine months of 2013 versus 102.3% for the prior year, as the company achieved continued positive growth in pricing and had favorable loss experience. In the first nine months of 2013, Selective achieved an underwriting profit in the standard commercial and personal lines segments as well as improved results in the Excess and Surplus (E&S) lines business. Fitch's expectations are that Selective will continue to perform at a break-even or better level over the long term.

Fitch notes that the company's accident-year combined ratio, excluding the impact of catastrophe losses, improved in the first nine months of 2013 by 3.7 points over the prior year period, reflecting a recent improvement in run-rate underwriting results.

Fitch believes that Selective's capitalization is good as of Sept. 30, 2013, but has recently experienced moderate amounts of deterioration. At Sept. 30, 2013, trailing 12 month GAAP operating leverage (net premiums written to shareholders' equity) was 1.57x, versus 1.53x at year-end 2012, with the increase driven primarily by the additional excess and surplus lines premium as well as from price improvement experienced in the commercial and personal segments.

Fitch also believes that Selective employs a moderate amount of financial leverage, with adequate financial flexibility. The company's unadjusted debt-to-total capital ratio is roughly 25.9% at Sept. 30, 2013.

Selective's stockholders' equity increased by approximately 3.1% through the first nine months 2013 to just over \$1.1 billion. Group statutory surplus increased to \$1.2 billion at Sept. 30, 2013 from \$1.1 billion at year-end 2012.

Rating Sensitivities

Key rating triggers that could lead to a downgrade include prolonged underwriting weakness, demonstrated by a failure to produce an underwriting profit given normal catastrophe losses, and material deterioration in current balance sheet strengths, including operating leverage as measured by net written premiums-to-equity rising above 1.7x, net leverage remaining above 5.0x, financial leverage remaining above 25%, along with operating earnings based interest coverage that fails to reach 5x-7x or better.

Key rating triggers that could lead to a return to a Stable Outlook include sustained improvement on recent underwriting performance in which Selective maintains an underwriting profit given normal catastrophe losses, net statutory leverage under 5.0x, financial leverage under 25%, statutory RBC approaching 225% of the company action level, and operating earnings based interest coverage reaching 5x-7x or better.

Fitch has affirmed the following ratings with a Negative 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+';

--\$185 million senior notes 5.875% due Feb. 9, 2043 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

Mesa Underwriters Specialty Insurance Company

Selective Casualty Insurance Company

Selective Fire and Casualty Insurance Company

--IFS at 'A+'.

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Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:

--'Insurance Rating Methodology' (November 2013).

Applicable Criteria and Related Research:

Insurance Rating Methodology -- Amended

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=723072

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