

FINAL TRANSCRIPT

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SIGI - Q3 2010 Selective Insurance Group, Inc. Earnings Conference Call

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PRESENTATION

Operator

Good day, everyone. Welcome to the Selective Insurance Group's third-quarter 2010 earnings release conference call. At this time for opening remarks and introductions, I would like to turn the call over to Senior Vice President, Investor Relations and Treasurer, Ms. Jennifer DiBerardino. You may begin.

Jennifer DiBerardino - *Selective Insurance Group, Inc. - SVP, IR & Treasurer*

Thank you. Good morning and welcome to Selective Insurance Group's third-quarter 2010 conference call. This call is being simulcast on our website and the replay will be available through November 29, 2010. A supplemental investor package, which includes GAAP reconciliations of non-GAAP financial measures referred to on this call, is available on the Investors page of our website at www.selective.com.

Selective uses operating income, a non-GAAP measure, to analyze trends and operations. Operating income is net income excluding the after-tax impact of net realized investment gains or losses, as well as the after-tax result of discontinued operations. We believe that providing this non-GAAP measure makes it easier for investors to evaluate our insurance business.

As a reminder, some of the statements and projections that will be made during this call are forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties. We refer you to Selective's annual report on Form 10-K and any subsequent Form 10-Qs filed with the US Securities and Exchange Commission for a detailed discussion of these risks and uncertainties. Please note that Selective undertakes no obligation to update or revise any forward-looking statements.



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Joining me today on the call are the following members of Selective's executive management team -- Greg Murphy, CEO; Dale Thatcher, CFO; John Marchioni, EVP of Insurance Operations; and Ron Zaleski, our Chief Actuary. Now I'll turn the call over to Dale to review the quarter results.

Dale Thatcher - *Selective Insurance Group, Inc. - EVP & CFO*

Thanks, Jen. Good morning. It was another competitive quarter in the industry and improving underwriting results were masked again this quarter by catastrophe losses totaling \$12 million. This included \$5 million in losses that occurred from prior quarter cats, including hail damage, which tends to have a longer discovery period.

For the quarter, we reported operating income per diluted share of \$0.35 as compared to \$0.44 a year ago while earnings were reduced by catastrophe losses and lower investment income, this was partially offset by favorable prior-year reserve development due to ongoing positive claim trends.

The third-quarter statutory combined ratio was 100.3%, about flat with a year ago. Catastrophe losses accounted for 3.4 points on the quarter's combined ratio and current year workers comp deterioration accounted for \$10 million, or 2.9 points. These were offset by prior-year favorable casualty lines reserve development of \$13 million pretax, or 3.7 points.

Commercial lines growth continues to be a challenge given economic and competitive conditions. Commercial lines net premium written declined 6% in the quarter, driven mainly by \$13 million in return audit and endorsement premium. While this return premium is still significant, there was improvement from the \$18 million average return premium we have seen in each of the last six quarters. We believe that the size of our construction book of business, in conjunction with the soft economy, is driving this trend.

New commercial lines business declined 22% in the quarter while renewal pure price was up 2.8%. Policy retention held firm at 75% as we continue to push for positive commercial lines pure price. Retention is strongest for small business while large and middle market accounts are seeing the most pressure.

We reported a commercial lines statutory combined ratio of 99.8% in the third quarter. Catastrophe losses contributed 2.4 points to this combined ratio. Commercial property ex-catastrophes performed very well with a 78.9% statutory combined ratio. Commercial auto results also had a good quarter, reporting a statutory combined ratio of 83.3%. Commercial auto results were positively impacted by a favorable prior-year development of 14.3 points as a result of lower-than-anticipated severity, primarily in the 2008 and 2009 accident years.

Similar to the rest of the industry, our workers compensation business continues to show the negative impact of a soft economy. The third-quarter statutory combined ratio for this line of business was 130.2%. Workers comp continues to be substantially affected by the return audit premiums. The combined ratio also includes about 5 points of adverse prior-year reserve development related to severity in the 2008 and 2009 accident years and 16.7 points from revised loss expectations for the current accident year. We are seeing severity as a result of the economy and the ability of workers to legitimately extend their medical and indemnity benefits while job prospects remain scarce.

Personal lines net premium written grew 13% in the quarter to \$70 million. The personal lines statutory combined ratio for the quarter was 103.2%, which included 8 points of catastrophe losses. In a more normalized cat environment, personal lines results would be at the sub-100 run rate. Retention improved 1 point from the third quarter of 2009 even though we continue to drive rates higher.

Third-quarter net investment income after tax decreased 11% to \$25 million. This was largely due to the low interest rate environment as new money is being invested at an after-tax yield of only 1.8%. Our weighting to municipal securities has decreased to 43% of the fixed income portfolio at September 30 versus 50% a year ago. While most asset classes produced

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positive returns in the third quarter, the lower after-tax yield on fixed maturity securities of 2.8% in the quarter drove a \$2.7 million after-tax decrease in fixed income.

In addition, we still hold a higher than usual short-term and cash position. Market conditions and availability of high-quality assets provided limited opportunities to find enough fixed income product to put all the cash to work.

Compared to a year ago, the unrealized gain position improved to \$135 million pretax at September 30, 2010 from \$51 million at September 30, 2009. Other than temporary impairments, or OTTI, in the quarter were recorded at \$1.8 million after tax versus \$2.8 million in the third quarter of 2009.

Invested assets were up 5% from a year ago to \$4 billion. Our overall fixed income portfolio maintains a very high credit quality of AA and duration of 3.5 years, including short term and 3.8 years excluding short term. Market-to-carry value on the whole fixed income portfolio remains strong ending the quarter at 105.2%, up from 102.1% a year ago. Our equity exposure was 1.6% of invested assets, consistent with last quarter and down from 2.4% in September of '09. Trading activity in the quarter moved the equity portfolio closer to the S&P 500 on a sector basis.

Our \$1.5 billion municipal bond portfolio is very high quality with an average AA rating. In the current environment, we continue to prefer high-quality revenue and dedicated tax bonds. We have always been conservative in our municipal bond investing and never relied on the insurance wrap to boost the credit quality. As we transitioned our portfolio to outside managers, they performed a detailed analysis of our municipal bond portfolio and concurred that we are sufficiently diversified both geographically and among sectors.

We have allocations across 48 states and the District of Columbia and Puerto Rico and we have 465 different securities in the portfolio. While we feel good about the composition of our muni portfolio, we are keeping a watchful eye on the various states, their budget situations and their pension and retirement liabilities. We continually assess our municipal allocation in light of the current state of municipal finances and our alternative minimum tax position.

Surplus remained strong at the \$1 billion mark at September 30 and stockholders' equity increased 9% to \$1.1 billion from year-end '09. Our book value remains very strong with minimal intangibles. Book value per share increased to \$20.41 from \$18.83 at year-end 2009, which is also up 4% sequentially from the second quarter.

Also noteworthy is the fact that the unrecognized gain position in the held-to-maturity portion of the fixed income portfolio was \$67 million pretax, or \$0.82 per share after tax at quarter-end. The dividend yield currently stands at 3%, providing a good return, while the stock trades at only 86% of book value.

Our capital position is strong with the premium to surplus ratio remaining the same as last quarter-end at 1.4 to 1 and improved from 1.6 to 1 a year ago. While we view our stock valuation as very attractive, we are maintaining our current levels of operating leverage and capital. Regulators and rating agencies have established a new norm for capital levels and as a result, we will maintain any excess capital to facilitate growth in the widely anticipated commercial lines market hardening. Now I will turn the call over to John Marchioni to review the insurance operations.

John Marchioni - *Selective Insurance Group, Inc. - EVP, Insurance Operations*

Thanks, Dale. Good morning. The commercial lines environment remained competitive in the third quarter, but we have maintained pricing discipline. This makes the sixth consecutive quarter of positive commercial lines renewal price, a substantial achievement.



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New business pricing was also up a very strong 4.7% in the third quarter. It's not easy being one of only a handful of carriers raising price in this market. Our agents and employees are doing a great job in a very tough environment. Without the superior relationships that we have with our 980 agents we would not be as successful in achieving this price.

We continue to closely monitor retention as we execute our pricing strategy. On a point-of-renewal basis, overall policy retention for the quarter was 88%, essentially flat with 2009. Pressure on retention levels remains greatest on the large accounts as competitors are still most aggressive at this end of the market.

The overall mix of our business continues to improve. Policy retention at the point of renewal is strongest on our best-performing business. Our best-performing business comprising about 58% of our book, retained at 2 points better than average as we achieved rate increases of 1.5%. Our worst-performing business, comprising about 15% of our book, showed retention levels 6 points below the average as we achieved 8.6% price on this business.

Because of the undisciplined state of the commercial lines market, we revised our pricing strategy earlier this year to focus our efforts most aggressively on the worst-performing business to achieve profitability while emphasizing retention for the best performing business. We recognize that there are still accounts that require more price, but we feel we are getting what we can where we can given the current environment.

Working with our agency partners, our field underwriters are writing the majority of our new business in the highest-quality four and five diamond range. Submission activity from agents remains strong, but there continues to be pressure on hit ratios.

Commercial lines new business was down 18% year to date compared to 2009. By segment, One-and-Done automated small business was up 4% to \$58 million. Middle-market, or AMS-generated business, was down 24% to \$101 million. Selective Risk Managers, our large account business, was down 46% to \$9 million.

We continue to make progress in diversifying our commercial lines book of business. In the quarter, noncontractor or new business comprised 72% of commercial lines new business, up from 68% a year ago.

The line of business which is showing the greatest strain is workers compensation. While frequencies have declined 27.4% over the past three years since our deployment of predictive modeling, severity is up substantially in both medical and indemnity, driven by medical cost inflation and a soft economy. This is an industrywide issue. We are addressing the situation by diversifying our commercial lines book away from contractors, which is impacted the most by economic condition and raising rates where we can.

We continue to grow the personal lines book with new business up 18% year to date. Retention is also strong at 82%. We are growing due to the rate increases we have been able to achieve and the diversification of the book outside of New Jersey. Policy count outside of New Jersey is up 23% year to date and we expect this growth to continue.

Last quarter, I cited three reasons why we are confident about achieving profitability in personal lines. One, our immature book will continue to age; two, we will continue to earn the implemented rate increases; and three, we will continue to get additional rate where possible while continuously refining our model. The results are improving. While catastrophe losses are a part of our business and can't be excluded from results, normalizing for a historical catastrophe load of about 3 points, underlying results are now running a sub-100 combined ratio. Excluding catastrophe losses, we had a 95% combined ratio in the quarter. We are not ready to declare victory, but we are very encouraged by the positive progress we have made.

Pure renewal rate remained strong for personal lines at 6.4% in the quarter and 5% year to date. The market continues to support personal lines rate increases, especially in the homeowners line where industrywide rates remain below acceptable levels. Now I will turn the call over to Greg.



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Greg Murphy - *Selective Insurance Group, Inc. - Chairman, President & CEO*

Thank you, John and good morning. The commercial lines industry faces some significant headwinds due to a low interest rate environment, increasing loss costs, declining top-line premium and reserve releases that will eventually diminish. In addition to underwriting and claims improvements, commercial lines price increases are necessary in order to achieve combined ratios that generate acceptable ROEs in this declining interest rate environment.

However, commercial lines pricing power has not yet emerged. It seems that the commercial lines marketplace has adopted an attitude of "it is what it is." We don't agree with this as we have achieved six consecutive quarters of positive renewal price increases. We feel this is quite an achievement given the current market conditions.

When pricing power eventually develops, those companies without granular pricing tools on a commercial lines basis will be at a competitive disadvantage. In other words, companies will have great difficulty if they plan to increase prices on a socialized basis. In other words, a specific rate level across the board. Our granular pricing capabilities should provide us with additional profitable growth opportunities. We plan to grow our network of 980 agency partners to about 1000 over 2011.

In our 22 state footprint, we should have ample opportunity to meet our targeted growth rates. Between now and 2011, we have deployed 10 new commercial lines products and expanded our reach across new market segments. By year-end, our unearned premium reserves should reflect renewal price increases of 3% in commercial lines and 5% in personal lines.

Throughout our granular pricing capability, we will continue to develop rate in targeted segments of our business. In addition, in 2011, we will drive rates higher in both home and automobile lines of insurance.

For the nine months, our statutory combined ratio was 101.4%. Catastrophe losses were partially offset by favorable loss development as our underwriting results remain within our overall expectations. We are therefore maintaining our statutory combined ratio guidance of 101.5% for 2010. The weighted average share assumption of 54 million and year-end remains the same. Now I'll turn the call back to the operator for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Doug Mewhirter.

Doug Mewhirter - *RBC Capital Markets - Analyst*

Hi, this is Doug Mewhirter from RBC. I just had one question. John or Greg, what do you think loss cost trends are running for commercial lines? I know it is not -- workers' comp is a lot different from commercial auto, but in general across your book of business, what do you think loss cost trends are running?

Greg Murphy - *Selective Insurance Group, Inc. - Chairman, President & CEO*

Yes, we have -- there is two things. First of all, we have an estimated inflation in what we do on our loss picks and I would say on a year-to-date basis, in commercial lines, they are a little over 3%, right around 3.2% and on a personal lines basis, they are right around 2%, 2.1%. And then if you are talking about loss costs specifically then -- so that is what we build into our trend analysis and our picks and then we also look at frequency and severity within our personal lines and commercial lines mix of the business. And they show something different than that. But that is what we put into our picks.



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Doug Mewhirter - RBC Capital Markets - Analyst

I guess you mentioned they showed something different. Is it appreciably different?

Greg Murphy - Selective Insurance Group, Inc. - Chairman, President & CEO

No, not really.

Doug Mewhirter - RBC Capital Markets - Analyst

And is it that important, really?

Greg Murphy - Selective Insurance Group, Inc. - Chairman, President & CEO

Well, it also shows how claims are actually emerging, so no, it is an important statistic. There are all kinds of statistics that you have to follow and we look at the frequency, severity on a liability basis on commercial lines. That is a little under 3% actually. It is right around 2.8%. And then on personal lines, it is actually favorable. It's minus 4%. Those statistics, I just want to be clear on this, those statistics get pushed around on a quarter-to-quarter basis and that is why we kind of look at what we build in in terms of inflationary aspects into our overall loss PEGs and then those are moved methodically over time based on a group of other measurements.

Doug Mewhirter - RBC Capital Markets - Analyst

Okay, great. And actually I just -- one more question came to my mind. Dale, I keep forgetting this after each quarter. Is there any kind of lag built into your alternative investment reporting?

Dale Thatcher - Selective Insurance Group, Inc. - EVP & CFO

Yes, most of them are on a one-quarter lag. So the -- I would say 85% of the performance in any given quarter is really related to the previous quarter's activity.

Greg Murphy - Selective Insurance Group, Inc. - Chairman, President & CEO

And Doug, those statistics I quoted for frequency and severity were just within the liability sector of commercial lines and personal lines respectively.

Doug Mewhirter - RBC Capital Markets - Analyst

Okay, great. Thanks. That's all my questions.

Operator

Caroline Steers.



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Caroline Steers - *Macquarie Research - Analyst*

Hi, it's Macquarie. I am actually just wondering how much of your investment portfolio is being reinvested over the next one or two years? And then where you are putting that money and do equities and maybe non-fixed income securities look more attractive right now just given what yields are doing?

Dale Thatcher - *Selective Insurance Group, Inc. - EVP & CFO*

Yes, basically you have got a 3.5 year duration, so you can think of that basically in terms of roughly a seven-year maturity and it is fairly laddered. So basically, just for modeling purposes, you can assume about 1/7 would roll off in any given year as far as the existing portfolio. Then obviously you also have to factor in the new cash that gets generated within the operations.

Where we are investing right now -- obviously, it is a difficult timeframe in terms of finding rate out there. We are maintaining our discipline in terms of keeping the quality of the portfolio up because of some of the concern out in the municipal space with regards to municipal finances and also because of where we are with regards to AMT, we are currently investing in the corporate space.

So as we indicated in our prepared comments, unfortunately right now, the after-tax yield for new money is about 1.8% compared to the portfolio yield of 2.8%, which in and of itself was already somewhat anemic. But that is the interest rate environment we find ourselves in.

Caroline Steers - *Macquarie Research - Analyst*

Okay. So basically there is not any change? You wouldn't get into more equities or non-fixed income?

Good morning I mean it's always a possibility. We have looked at the equities and we will continually evaluate that and make a determination as to whether or not that makes the most sense. Obviously, with this kind of yield, you have to evaluate that, but by the same token, you don't want to overly change the risk profile just to -- in a quest for yield. You have got to be comfortable with the risk that you are taking on. So it is just something we will look at.

Caroline Steers - *Macquarie Research - Analyst*

Okay. And then just finally on the underwriting side, I was wondering if you guys are seeing any erosion of terms and conditions and if so, in what lines? And then if you could just talk about what the biggest differential -- what lines you are seeing the biggest differential between new and renewal business and that is it. Thank you.

John Marchioni - *Selective Insurance Group, Inc. - EVP, Insurance Operations*

This is John Marchioni. I will take that. In terms of terms and conditions, we really have not seen any significant deterioration or, from the customers' perspective, improvement in terms of conditions. Again, we tend to have a small commercial and middle-market-focused book of business where you don't really see terms negotiated on an account-by-account basis.

So from our perspective, that has not moved and we wouldn't anticipate that moving. That is more of a larger account style issue that you will see develop in these marketplaces and I think you are hearing more of that in the large space, but that doesn't really impact our book.

In terms of pressure on new business and the pricing environment out there, again, we are an account underwriter so we tend to look at things holistically and it does tend to be across the board.



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I would say, interestingly, you are finally starting to see a little bit less pressure on comp in terms of new business; although that is very recent. We have, in fact, seen the comp market become aggressive over the last year to 18 months in terms of higher commission levels being paid and some appetite expansion. I think companies are finally starting to realize the economic impacts on severity in that line and are starting to back up a little bit there. But when you look at the non-comp lines, I would say, holistically, it is fairly consistent in terms of the market pressures on new business.

Caroline Steers - *Macquarie Research - Analyst*

Okay, great. Thank you.

Greg Murphy - *Selective Insurance Group, Inc. - Chairman, President & CEO*

And then if you just looked at our pricing by line, it is fairly evenly distributed, a little bit heavier weight on our pricing in the GL sector and then comps actually a little bit on the lower side. It's about -- not quite 100 basis points under our average pricing. And some of that just reflects the more difficulty you have in getting price on the comp line, but it is an area of significant focus for us as we move into 2011.

Caroline Steers - *Macquarie Research - Analyst*

Okay. And actually I just thought of something on personal lines. Is there any particular region where you tend to be getting more rate maybe in homeowners? Is it more the Midwest and Northeast because of the cats you have had there?

John Marchioni - *Selective Insurance Group, Inc. - EVP, Insurance Operations*

Yes, this is John again. I would definitely say, if you looked at our split of rate by region, the Midwestern home line is by far the highest by a few points, higher than average in terms of the home line out there. We are seeing it pretty consistent across the board in both the auto and the home lines, but home in the Midwest is a leader in that regard. The market is bearing that. You're seeing that being an industry wide movement and we would expect, as we move forward, that that rate continues to drive higher.

Caroline Steers - *Macquarie Research - Analyst*

Okay, great. Thanks.

Operator

(Operator Instructions). Bob Farnam.

Greg Murphy - *Selective Insurance Group, Inc. - Chairman, President & CEO*

Bob, just to add a little clarity to it just so you understand. We got 25 rate increases over 5% so far. So that tells you that that is fairly well distributed throughout the footprint.

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Bob Farnam - Keefe, Bruyette & Woods - Analyst

Okay, Bob Farnam, KBW. Going back to the personal lines, basically you're saying that, with a normal cat load, you are having an underwriting profit now. Can you describe -- is that both homeowners and auto? Is that true for both of them or is one or the other the driver?

Greg Murphy - Selective Insurance Group, Inc. - Chairman, President & CEO

Right now, our profitability is reached on an overall segment line of business basis. It is also contributed by flood. That generates a profit. And generally, I would say, within that level of profitability at about 99, if you were to normalize the cat load for the nine-month period in personal lines, I would say we are still feeling pressure on the auto sector that is not profitable and the home sector would be profitable most likely with that adjustment.

So I would say the auto is still a drag on overall performance and an area of significant attention from a price standpoint. And then from the home standpoint, like John mentioned, we are getting rate increases across the board and that we feel is the most efficient way to improve that book of business at this particular point in time.

Bob Farnam - Keefe, Bruyette & Woods - Analyst

All right, okay. And moving over to workers' comp, are there specific states that are driving more of the issues -- any states doing worse than others?

Greg Murphy - Selective Insurance Group, Inc. - Chairman, President & CEO

I would say it is fairly much across the board. The pressure is coming from utilization on the medical side. I think it is an extension of medical -- whether it be drugs or any other part of medical utilization -- to keep indemnity payments out there. I think it is just -- some of that is a reflection of the very soft economic conditions overall. But also I think, in our comp book, we have seen years of severity and that is just something we have closely watched and they do run just on kind of a random basis within the profile.

So some of that is just randomness, but some of it is also very much economic-driven and then, as Dale mentioned, there is huge pressure on return premium in that line. In some cases, there is some reclassification of payroll that happens as a result of the soft economic conditions and every part of this is our focus going forward.

Bob Farnam - Keefe, Bruyette & Woods - Analyst

And it sounds like the return premium was getting better; it is still negative though. Do you see that turning anytime soon?

Greg Murphy - Selective Insurance Group, Inc. - Chairman, President & CEO

Well, it has been running, for the last -- let's say through June, it was running about \$18 million a quarter and that is not relative to just comp. That was in aggregate and the main two lines that that impacts though is workers' comp and general liability and then we saw that in the third quarter of this year that number went to about \$13 million. So we have seen that number improve by \$5 million. Although still negative, it is an improvement. I would say that that is higher than our expectation, but it is starting to moderate.

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Bob Farnam - *Keefe, Bruyette & Woods - Analyst*

Okay, thank you.

Operator

(Operator Instructions). John Grimstad, Piper Jaffray.

John Grimstad - *Piper Jaffray - Analyst*

Good morning, Piper Jaffray. I was wondering if you all could give us a little bit more color on your perspective on workers' comp severity trends going forward. I know we talked about it a bit, but just for the remainder of the year and then into 2011. Expect it to continue from a severity standpoint or just a little bit of color how you are thinking about that?

Greg Murphy - *Selective Insurance Group, Inc. - Chairman, President & CEO*

Well, that is a difficult question to prognosticate in terms of what happens in 2011. I mean I will let other folks comment, but I think to the extent that there is an element of randomness in terms of severe claims that happen on a fortuitous basis, that is a very difficult to sit there and extract that from the book. I would say that, from our standpoint, we have -- putting together a very aggressive plan in terms of utilization and compensability and other factors that should improve results overall. But I would say that soft economic conditions do create an overhang in both the medical aspect and then also on the indemnity side. And I think that is --.

John Marchioni - *Selective Insurance Group, Inc. - EVP, Insurance Operations*

This is John. I think Greg is right. If you're looking for indicators -- we have talked about the fact that medical inflation and the economic conditions relative to unemployment are tracking with what we are seeing in terms of severity. So if you want to look for indicators, I would look at how those two things track as you move forward and assume that they will impact the book the way they are right now until they start to move in a different direction.

John Grimstad - *Piper Jaffray - Analyst*

Okay, thank you.

Greg Murphy - *Selective Insurance Group, Inc. - Chairman, President & CEO*

And I would say these are things that don't appear to be unique to us. They appear to be industrywide and then I think it depends on how companies are responding to that, how companies respond to the level of activity. We do, and Dale has talked to you many times about this. Every quarter, we do a deep analysis. We have a very integrated planning process. So we have a tendency to respond to this fairly quickly and we have already moved our current year loss ratio pick on our comp book up to 70 and that came through all in this quarter. So it went from approximately 62, 61 up to 70 in the quarter on the comp pick, so that number came through all in this quarter.

So when you look at our quarterly performance, and I hope this came out through the comments that we made earlier, you have got to kind of normalize that over the year. And so it does have an impact on our earnings for the quarter of about -- right around \$0.06, somewhere in that neighborhood, and then, obviously, it has -- you have to normalize -- it's also the effect on the combined ratio because you have to put some of that back theoretically into the first quarter and second quarter if you want to look at how we currently view the 2010 accident year.

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Dale Thatcher - *Selective Insurance Group, Inc. - EVP & CFO*

Just to give a little bit more detail, pulling it out of the prepared comments before, so you have got 16.7 points on that 130% combined are related to an increase in the current year accident pick. So if you just take the straight average, you could assume that about 10 of those points relate to the first and second quarter.

John Grimstad - *Piper Jaffray - Analyst*

Great. Thanks for the color on that. Also switching gears a bit, in terms of the frequency trends in the commercial lines outside of workers' comp, what are you all seeing with regard to that?

Greg Murphy - *Selective Insurance Group, Inc. - Chairman, President & CEO*

Frequency is -- general liability is down. We look at this on a fiscal year basis, the fiscal year basis. So frequency, and this is on earned policy counts versus GL is down, commercial auto liability is down, BOP liability is down. And we have a tendency to drill more on the liability line and less necessarily on the property lines, but those are -- the bigger lines right there that drive the book of business, that is GL, it is commercial auto and it is comp, as we have already discussed and then the BOP has a smaller relative size wise on that book overall. But all of those trends were, on the frequency side, favorable.

John Grimstad - *Piper Jaffray - Analyst*

And I guess, along with that, no signs that would lead you all to expect an uptick going into 2011?

Greg Murphy - *Selective Insurance Group, Inc. - Chairman, President & CEO*

Well, that is a little more difficult to prognosticate. Frequency trends have been favorable for a while and you would expect, at some point, you would see that converge more towards the mean and actually maybe start to move higher as you go forward. I wouldn't want anybody to think that -- if everybody is prognosticating out there that the market is not going to firm and they are not going to increase price and they think that frequency is going to go down, why don't they just throw a severity drop on top of that, you know?

It is just not -- that is just not practical if you are going to view it for the long term in terms of where your pricing needs to be. These numbers do get pushed around a fair amount and I think you need to look at it in that light. There is a fair amount of volatility in these numbers and when you start looking at where you are setting your current year, what your next year is going to look like in terms of where your pegs are going to be, you have to look at these with a certain amount of convergence towards the mean and you can't just go on an outlier.

John Grimstad - *Piper Jaffray - Analyst*

Fair enough. Thanks a lot for your response.

Dale Thatcher - *Selective Insurance Group, Inc. - EVP & CFO*

So there is nothing other than 30 years of experience that tells us that, at some point, it can't just keep going down.



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Operator

(Operator Instructions). At this time, I am showing no further questions.

Greg Murphy - *Selective Insurance Group, Inc. - Chairman, President & CEO*

All right. Well, thank you all very much. If you have any follow-up, Dale and Jennifer are available. Thank you very much for participating on the call. Thank you.

Operator

Thank you. And this does conclude today's conference call. We thank you for your participation. At this time, you may disconnect your lines.

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