

Jennifer: Welcome to Selective Insurance 2012 Investor Day. We really appreciate you taking the time to come out this afternoon. Just as a reminder, we are webcasting the event this afternoon, so also welcome to those of you who are listening via webcast.

We have a full afternoon, a full agenda for you today. As you can see, our theme for the afternoon is success through differentiation. We're going to talk to you a lot about our agency relationships and what that means to us. You'll have an opportunity to hear from some of our agents, which we're very happy that they are here today. We're going to hear a lot about our field model and what that means, how they empower decision-makers out in the field. And then we'll talk to you about our business analytics, which we have sophisticated pricing, underwriting, and claims initiatives and tools out there for our underwriters. And we think when you pull all that together that will define our success over the long-term and we think our program will support that.

Of course, ultimately that's up to you and I just want you to know that I will be sending you a short survey tomorrow, so watch your inbox. I ask if you could please fill that out and return it. It's anonymous. It's being administered by a third party. But it really helps us as we build our investor relations program to make sure we're giving you what you need. If you could do that for me, I'd appreciate it.

We have a number of members of Selective being represented here today and I'd like to introduce some folks to you. We have a number of members from our board of directors, which is very exciting for us. And I'd like to just say their names and ask if you would stand up and wave so that we can put the face with the name: Paul Bauer; Bill Rue, a long time agent of Selective; Ron O'Kelley, in the back of the room there; Joan Lamm-Tennant; Anabelle Bexiga, she's our newest member of the board of directors, just recently voted in in April, she comes to us from TIAA-CREF, where she's an information officer; Brian Thebault; and Mike Morrissey, there we go.

We also have a number of the Selective management here today who aren't speaking but are going to be available at the break and at the end if you want to have a chance to chat with some of them. I'm going to introduce those as well. Ron Zaleski is our Chief Actuary, in the back; Ron St. Clair, our Chief Information Officer; Michael Lanza, General Counsel; Kimberly Burnett who's our Director of Human Resources; Susan Sweeney, Chief Investment Officer; Tony Harnett, who is our Corporate Controller; and we have Yanina Hupka, who is our Chief Risk and Reinsurance Officer, here she is.

As I said, we have a full agenda for you today. We're going to have Greg Murphy kick it off here with a strategic overview. Then Dale Thatcher's going to come up and talk to you about our foundation for success, which really is that financial

strength and stability of the organization. John Marchioni, who is our EVP of Insurance Operations, will talk to you about the strategies we have in our insurance operations. And then his folks will come up and talk about their respective areas, personal lines, commercial lines, claims, as well as our field model and our business analytics.

We're going to take a break about midway through so you can hit those BlackBerrys that you've silenced for us and be able to have an opportunity to make your calls. There are a number of locations on the floor where you can kind of wander off and have a private conversation. We're going to have a break right out the door. They just open in the back to my left and your right, where Mr. Peters just walked in. And we'll have a break there for about 20 minutes.

Then we're going to come back and we're going to have a couple more presentations. And the afternoon will culminate with an agency panel. We've invited four of our best agents. We have a superior agency force but we have four of our finest with us today who are going to have a conversation that'll be moderated by Mr. Marchioni. And we also have one of our own on the panel today, John Willenborg, who is the Territory Manager for Selective. He's been with the company for a number of years in a number of underwriting roles. He'll also be on the panel. We'll have a Q&A at the end of that panel so you have an opportunity to ask your questions of the agents directly. We really encourage you to take advantage of this opportunity. Greg will come back up and summarize the day for us and then we'll open it up to a general Q&A for the management team.

With that, I just have to remind you that we will be making forward-looking statements today as defined by the Private Securities Litigation Reform Act of 1995 and we refer you to our SEC filings on Form 10K and 10Q for the long list of risk factors that go along with that. With that, I'm going to turn it over to Greg Murphy, our President, CEO, and Chairman.

Greg: Thank you, Jennifer. First of all, we're glad that you're here today to share this opportunity with us. And I think you'll have a deeper understanding about Selective, what makes us unique. I think what's most important too are the things that we think about as a company that makes us different, and not only that but how we execute in the marketplace. Many of you have had questions about our ability to raise price. This is your opportunity today to talk to four agents from Selective about what's happening in the marketplace. Start to think about the formulation of your questions as we move through the day.

But I think overall we are a very nimble company in the marketplace. I think when you think about us as a super-regional we do have things that are different. We have a field model, first of all, and understand that many companies have offices that are remote. Not only do we have five regional offices but we have

over 400 people that work out of their homes relative to that. So when we talk about being close to the customer, we are about as close as you can get without living in their house. And then we'll talk a lot about our ability to execute in the marketplace in terms of the actionable data that we create. That allows our people to make decisions quickly and make a decision, move on, get to the next policy, because you've got to remember, our inside underwriters and our field people are dealing with hundreds of decisions a day and how do you make that best for them. And then I think obviously our history of financial strength, I mean it's best I think in terms of our lack of reserve volatility as a company, but we have a strong history of financial success. And then obviously our focus is around generating shareholder value, increasing our return on equity, whether that's also through dividend increases or through share repurchase programs. But it's about how do we grow our stockholders' equity as quickly as possible.

If you think about then what makes us unique and the empowered decision-making, a true field model, 400 people, whether it's on the underwriting side for new business, the claim or safety management, the 400 people that live and work as close as you can get to the customer I think provides us an enormous advantage about what's happening in the marketplace. Not only that, but when you talk about it from an agency standpoint, they want to know what you know about that risk that makes it different. When they go out and show the customer who it is, who Selective is and why they want to write this account, I think being able to take our field underwriter out is an enormous advantage. Being able to take our safety person out is a big advantage. And for those larger accounts, to take a claim person out and say, this is the person that's going to be handling your claim and why it makes a difference as to why you should do business with Selective.

And then I think our sophisticated underwriting and granular pricing tools, we do view the national carriers as having a lot of sophistication and you need to be in that kind of arena to be able to be successful in the marketplace. And then obviously overall our focus around customer experience and customer service, I think that's a game changer for us. You're going to hear about it through the course of the day in terms of the things that we're doing to better leverage the customer knowledge base as an organization. And then I think also from a risk management standpoint we think about risk all the time, how do we manage it properly. And obviously for an insurance company the biggest risks are around reserve risk, _____ risk, and then how you manage the cycle.

I think it should be clear to you that there's no company in the marketplace that manages a cycle more effectively than we do overall as a company. And then obviously an organization of constant improvement is what we strive for as our benchmark as a company.

And then when we sit down and think about the differences in the marketplace, think about a national carrier. They usually have a lot of underwriting sophistication. You have a lot of software and technology capabilities. But then you look at the overall on the regional side. You normally get more nimbleness on the regional side. You get more local decision-making. And I think when you put the two of them together, that's what we've created as a company. We have a true field model where I can only think of two other companies in the marketplace that have a legitimate field model like we have. And I think that makes a difference from our standpoint. And then when you think of the war chest of knowledge that we have as a company, we truly believe that you've got to be able to have the technology capabilities and we view our technological as award-winning.

It's funny that when we look at Traveler's, Hartford, and other carriers, we win the awards from AMS and Applied, which are the two big agency management vendors in the marketplace for ease of doing business. The thing that you have to think about, agents are like water. They go through the path of least resistance. You constantly have to be creating that path of least resistance for the agency plan.

That's a little bit about I think what the combination of the national capabilities but yet the local relationships that we bring as a regional company. I think this video best encapsulates our nimbleness in the marketplace, our customer focus and also a little bit about our franchise value. Again, we do \$1.5 billion of premium with only 1,000 agents. And Jen mentioned, we don't sub-segment our agents to create a more elite group. Every one of our agents is an elite agent. We like to view them as the Ivy League of independent agents in the marketplace. This is a little clip on the overall service from Selective.

[VIDEO]

Greg: And I think that does make a big difference in terms of our franchise. You figure we do 22 commercial line states and we have 1,000 agents in those 22 states. That gives you a sense of how much the franchise means to agents overall in the marketplace.

You think about Selective as a super-regional positioned for success and I think it really is the combination of our nimbleness and the data capability that we have. And when you think about where we stood in the marketplace and the franchise value that we've gotten with agents, many of you have questioned, how is it that you've been able to get rate for the last three years when no one else has? And then when the market does move how will you be able to react to that? Really it is relationship and nimbleness. That's really what you guys have been asking about.

I think this chart best demonstrates both of those elements. Let's talk about the relationship aspect. You can see that we are now going into our fourth year of price increases on the commercial lines side. And we were getting rate when virtually no one else was. You can actually see the first and second quarter of 2010 we were up in the mid three percent rate level and we had to back off a little bit because some carriers were out there talking about rate and then they backed off the marketplace very quickly. But yet we still maintained that right about three percent rate level quarter after quarter after quarter. And now that the market's started to move, our April, 2012 rate was now at 6.3. You were questioning the level of rate capability and that was up over six percent in the month of March.

Now I think the best comp straight up to you is the fact that you should be comparing our rate level relative to Select Traveler's program. That's the most balanced comp. I would say that their rate level is right around six if you interpret the chart and their retention dropped to I think about 75. Now our rate level is running around a 6, 6.3, and our retention is very strong at 83 and it's actually continued at about that level right in through April. You can see that retention for the first quarter was right around 83 and the main numbers were pretty consistent with that. I'm sorry, the April numbers were pretty consistent with that overall. Again, starting our fourth year of rate increases in the commercial lines marketplace.

Now when you also think about diversification, I know some of you want to get an opportunity to talk and we will discuss more about our new E&S operation. But when you think about where we are today and in five years from now, we look at a more balanced company, a better opportunity to create an underwriting profit. We look at our personal lines operations from today into let's say five years from now being about 20 percent of our business. We think of the E&S opportunity as somewhere between 15 and 20 percent. And then obviously the remainder would be in commercial lines at the 65 to 70 percent level. I think that improved diversification will actually provide more consistency in our earnings as we move forward.

Now let's look a little bit about growth. Obviously it's picking the opportunities to grow and grow smartly in the marketplace. I think we have the tools to grow smartly. When you think about it, we doubled the company in that timeframe from 1998 to 2006 where we went from \$750 million up to \$1.5 billion. Now you've got to remember the hard market at that timeframe started in 2001. I've been in the industry now 32 years, recently minted(?) 32 years. I've been through three hard markets. I don't classify this necessarily as a hard market. I call it a firming market overall. But it's still improving.

Now the interesting part of that slide is we and the board that's here were willing to shrink the organization into the teeth of a soft market. We did not grow in

2008, 2009, or 2010. We actually shrunk in 2008, 2009, and 2010. We had exposures dropping off. It was extremely competitive to write business and the only way that you were going to write new business is if it was really significantly under-priced. You can see that we were willing to make that trade and not grow. But now that the market's moving, we are back on a growth trajectory in 2011.

And you think about our ongoing focus around underwriting improvement and you're going to hear every element of this. When we talk about continuous improvement, what does that mean? Let's look at the first bullet down there, the first bubble. We're talking about a commercial lines environment of five to eight percent. And you think about that over a three year time period, 6.5 percent if you just did the simple average; if you compound that, that's about a 21 percent increase in rates. I'll tell you, that was normally one year of a hard market and we're talking about three years now of that kind of level of market. I think given the economic conditions that's probably what you can anticipate at this point in time. It doesn't mean things don't change as you go forward. This is a projection as of today.

Then on the personal lines side you will hear that we are driving rate heavily, probably much more, almost twice the level in home that we're doing in auto, but a good strong push forward in the personal lines pricing area. And then on the underwriting side throughout the course of the day you're going to hear a lot on the underwriting improvements that we're making on both the commercial lines and the underwriting side. And then on the claims side, we have a big holistic plan for a three point improvement and we're well into now our second year on that initiative and Doug Holbrook's here to talk to you about that today. And then I think expense management, we get a lot of this question from you on and off about as a regional carrier writing \$1.5 billion, doing everything the nationals are doing, how are you managing your expenses? But yet when you compare our expense ratio straight up, at just under 32 it's almost the same as Traveler's. Traveler's has a lot more scale and a different diversification strategy than we do but yet when you look at our expense ratio it's fairly normal to the level that they run at. And then obviously to get to 12 ROE all of these things are really working together and you're going to hear more about that from Dale in a minute.

But when you think about it, it's why is it that you want to invest in Selective? A very strong balance sheet with limited downside risk relative. We're trading at around .9 price-to-book right now at today's price. A proven ability to manage the cycle and I think what is most telling on that slide is we were getting rate almost at trend, loss trend when no one else was. We feel pretty confident about our ability to do that if the market weakens tremendously. And then I will tell you that we have the strongest relationships in the industry overall and I think that's a hallmark of our success as a company and then I think when you look at the fact

that we've got lower volatility, both on an underwriting side and a claims side, I think from a reserve standpoint, I think that improves where we are.

And then when you think about our leverage as an organization, we have \$3.84 of investment assets per dollar of stockholders' equity and a 2.8 percent after-tax return on your investment portfolio. That's about a 10.5 return on equity from your investment portfolio. The other advantage that we bring as a company is about every one point of combined ratio is just under one point of return on equity. So you get a good leverage point from that standpoint as well.

Again, growth at the right time. We want to make sure we're growing at the right opportunity in the marketplace and I think a very attractive valuation overall that significantly positions us as a carrier for future success. With that, I'm going to turn it over to Dale, who's going to walk you through a lot of the things that we just talked about relative to volatility on earnings, on the underwriting side, enterprise risk management, and some of the other initiatives that we have as an organization overall. With that, I'm going to turn it over to Dale. Thank you.

Dale: Thanks, Greg. Just before I get started here, a little piece of housekeeping. For those of you who flew in and are planning to fly back out, the gift that you get has 750 milliliters of a reddish liquid in there. Don't bring it through as a carry-on. They'll stop you. There's also something that could be construed as a weapon that will twist for opening purposes. I won't tell you what's in there but I just wanted to make sure you understood it is not a pair of golf shoes. I thought that would be important for those of you who are flying right out of here.

You'll hear a lot today about what makes us special, what the upside potential is, the different things that we're doing and a lot of the strategies that we have in place that are really going to drive both growth and profitability. But I also wanted to talk first about the foundation that we have, the strength that we have that really makes all of that possible. We'll talk about the underwriting stability that we have historically in our earnings. We'll talk about our disciplined reserving practices, our focus on expense management that Greg already told you a little bit about, the conservative investment strategy and also the benefits of the leverage that we employ within our operation and the way we do business.

If you start with underwriting stability, what this graph shows you here is it looks at Selective's statutory combined ratio compared to the industry. And by the measure of standard deviation, the volatility around the mean, you can see that compared to the industry we have less volatility. We don't have the kind of risk that you see broadly in the industry. And remember, this is an industry number. If the industry has more volatility, obviously individual members of that industry have even more volatility. We have a very stable platform, stable results driven by a number of different items.

One of the big items is catastrophe losses. These are the CAT losses here for Selective. Obviously in 2010 and 2011 those were tough years for us. They were actually the worst years in our history. But if you compare that to the industry, the industry actually is even worse consistently. And you can see over this ten year timeframe SIGI has averaged about 2.3 points on the combined ratio whereas the industry average is 4.5.

That's not just by luck. It's by where we have decided to write business. We don't write business in Florida. We don't write in the Gulf Coast. We don't write in California. We don't write in Texas, at least not on a standard lines basis, only on an E&S basis now with our new operations. But that limits our exposure to catastrophe losses, which also limits then the volatility that we have in our combined ratio.

If you also look at the way we manage reserves, we do a ground up reserve analysis each and every quarter so that we stay on top of any reserve trends. We don't get surprised. We don't have big news releases at the end of the year or tell you in the beginning of the year that we're going to do a reserve study and let you know what happens out of that at the end of the year while everybody holds their breath. We look at it every quarter. We stay on top of reserve trends. That's why you see in the blue there that Selective has again a lot less volatility in terms of reserve development whether it be adverse or favorable. Again, we manage that reserve inventory.

Now there's a little bet amongst the other folks that are going to be presenting today as to my ability to walk you through this slide in about five minutes or less. If you've got your actuarial playbook here, first off, this slide graphs two different actuarial methods. One's the Mack method; the other one is the Merz Wuthrich method. What those do is they purport to look at reserves and they purport to estimate potential reserve development. It's a forward-looking stochastic approach looking at your reserves based on the way they have historically developed.

The best place to be on this is lower volatility. The bottom left is the best place to be. And you can see all of the other folks that we have graphed based on publicly available information there. You've got Chubb, Cincinnati, CNA, Hanover, Harleysville, all the guys that you look at when you look at Selective. And you can see where we reside in terms of looking at our reserve volatility on a go-forward stochastic basis. The blue line down there at the one percent is the actual historic volatility. Again, that's the backwards look and again determines that we have much less volatility in our reserves. I think that was less than five minutes, so I think you owe me, Greg.

We also combine those conservative reserve management philosophies with a conservative reinsurance program. What this graph gives you is looking at our reinsurance program. We buy \$435 million in excess of a \$40 million retention and it graphs to be one percent probability and also the 0.4 percent probability, one in 100 or one in 250 year event. You can see the amount of our equity that is at risk in both the short-term and also the long-term view for RMS and AIR combined. It's a blended approach.

Greg talked about our expense management, talked about our expense ratio in comparison with Traveler's. This particular graph looks at us compared to the peer. And you can see, although we were a bit higher in the '07/'08 timeframe, as our premium declined -- remember, Greg showed you that slide before where we actually declined from '08, '09, and '10, yet we made up ground in our expense ratio. Very disciplined expense management. We made sure that we weren't letting that the client and premium impact our ability to manage our expenses and be good stewards of our shareholders' dollars.

Conservative investment portfolio: It's well-diversified, AA- average quality; 89 percent of that is bonds. We did deploy a high dividend yield equity strategy just this past year. Basically we saw an opportunity where equities were yielding more on a gross basis and even more on a tax adjusted basis since equities are tax advantaged in their treatment in the tax code. All that gave us an opportunity to deploy some of our capital into an equity strategy. Only so much that you can apply to that before rating agencies start getting a little excited about the amount, but that did give us an opportunity to boost yield a little bit without reducing the risk in our portfolio.

We're right at about a 3.3 year duration. We've done a lot of testing around the effects of inflation and deflation to try and determine, what do we believe the sweet spot to be if we all expect to have some form of inflation hit and where do you want to be. And we feel that the 3.3 year duration is the right spot for us to be in.

Greg talked about our investment leverage at \$3.84 per dollar of stockholders' equity. It gives us a little bit more ability to generate _____ the portfolio than most of our peer group. Again, you're going to see the peer group generally speaking is going to be more in the 2.8 or 2.9 kind of range.

Here you see how we use leverage in our premiums to surplus. We're at 1.4:1 compared to the broad industry at 0.8:1. If you look at just primary carriers, they are at about 1:1 premiums to surplus. We're able to use more leverage because, remember back to that first slide, the volatility that we have in our combined ratio is substantially less. The conservative investment portfolio that we have puts us in

a place where the rating agencies are willing to allow us to use more leverage in our operations.

What does that do for us? If you look at Selective at \$3.70, this number is as of yearend because we're going to compare it in a minute to the industry. At yearend we were \$3.70 per dollar of stockholders' equity. The 1.4 underwriting leverage, all that means is at about a 95 combined ratio we generate a 12 percent ROE. The industry at their leverage numbers, investment leverage at yearend of \$2.30 and underwriting leverage at 0.8 means the industry needs to be at an 87 combined ratio to generate that same 12 percent ROE. That's the benefit of leverage. By keeping everything else conservative, operating in a more conservative manner, we're able to use more leverage to generate better returns for our shareholders.

The other way that we manage risk, you see the low level of volatility, the low to medium risk that we have in our portfolio. We also team that up with I believe to be a very excellent and very strong method of enterprise risk management. We have an emerging risk committee that reviews basically the landscape out there to look for things that may be impacting us in the future. Obviously today spending a lot of time on the Euro zone and what that might mean, even today particularly.

But this is made up of VPs and senior VPs in the company. These are top level people that get together on a quarterly basis at least, if not more frequently, to make sure that we're looking at the broad environment, making sure that we're managing our risk and dealing with it appropriately. They identify those risks. We make sure that they get farmed out and managed to the extent that we need to, or at least monitored. And then they report that back to both the executive risk committee, which is Greg and his direct reports, as well as to the board of directors on a quarterly basis. The board is extensively involved in our enterprise risk management efforts.

We have all the same traditional risk management approaches that many people have in that siloed approach but our ERM enables us to look at risk across the enterprise so that we don't have any surprises. One of my rules of thumb has always been that if anything takes me more than 15 minutes to explain to the board of directors what we're doing, then it's too complex and too risky for us to get into. And I think that that has served us well in terms of keeping a very good risk profile and generating the right kinds of returns for our shareholders.

If you look at how we've managed capital over the years, you can see in the 1998 to 2006 timeframe that Greg talked about we doubled in size and we used our capital at that standpoint. We actually got up to about a 1.8:1/1.9:1 premiums to surplus. But that's because we were generating much better combined ratios. We were able to do that. As that capital built up, we were able to use that capital to return it to shareholders in the form of both share repurchases and increases in

dividends. That was in the '06 to '08 kind of timeframe. Then obviously '08 when the capital markets were melting down and '09 when things were going bad it was a matter of preserving capital, kind of hunkering down, not doing anything unduly that you didn't need to do, let cash build up a little bit to make sure that we understood exactly where things were moving.

As that passed through and we had an opportunity to make some acquisitions this past year, get into higher margin opportunities with the E&S, that's what we did in the '11 timeframe. We bought those two pieces of business. One is a book of business. The other is an actual company. But both of those acquisitions were done basically just like a renewal rights transaction. We didn't take anybody's balance sheet. We didn't take anybody's reserves or unearned premium reserves. We did what to me is one of the best ways to do an insurance acquisition and one of the least risky ways to do an insurance acquisition.

This slide, our waterfall chart, gives you a look at some of the stuff that Greg put out there for the path to a 12 percent ROE. A little bit different look at what it is: First, we adjust the 2011 results, pulled out the excess CATs, pulled out the favorable development to get to kind of a base case kind of a number, the \$103.3. We add to that loss trend. Obviously losses have normal loss inflation. Generally for us it runs between 2.7 and 3 points per year of loss trend. The reason it's only 6.5 and some of these numbers are that way is because they only operate on a piece of the combined ratio. A three point loss trend only operates on this 60 to 70 percent of loss and LAE(?) ratio. That's why the numbers may look a little bit different, because the math will work and we'll walk you through that later. Six point five (6.5) points of loss trend.

Pricing: Our expectation is between five and eight percent pure price increases over the next three years. That correlates to about 12.5 points of improvement on the combined ratio. You add in some of the underwriting initiatives that we have, as well as the claims initiatives, some of which are already in 2011 base case. Remember, we talked about three points of claims improvement. Two points remain on that three point program, as well as some giveback on the expense. That's not that we're going to be operating more inefficiently. It's that we're going to be paying more to our agents and to our employees because the profitability is going to be increasing and therefore profit-based commissions and bonuses will increase in that payout.

All of that is how we get to a 95 combined ratio in the 2014 timeframe. That's our internal projection. I think it's based on a lot of good, sound work and not a lot of crazy ideas or hope-me-so's(?). I think that a five to eight percent price increase seems pretty reasonable where I stand today. Obviously if the market hardens quicker we'll be getting more than that and if the market turns the other way we'll

be getting something less than that. But where we stand today, we think that that is a very reasonable projection.

The other thing you'll see, the next page in your flip book, and it's also on the web, don't worry, I'm not going to walk you through that. But it gives you basically the actuarial methodology in an example of how price increases and loss trends actually impact the combined ratio. You've got a mathematical example that you can go back and look at your models and think about some of the different numbers that we talk about.

With that, I'll turn it over to John Marchioni.

John: Thank you, Dale. We appreciate you coming out to spend some time with us today to really hear the Selective story firsthand. We're extremely proud of the organization that we've built, the people that we have out there. We've done the heavy lifting over the last couple of years. Throughout the soft market, throughout the difficult economy we've continued to make the investments to position this organization for long-term success and that's the reason why we think we're prepared to outperform and really take advantage of the marketplace as it's changing. We've got a very unique business model and we're going to take advantage of that.

When you think about what makes us different as an organization, why it is that agents want to make us their market of choice, it starts with people. And this business has always been and will always be about people, especially on the commercial lines side of the business. We think we have the best people in the business and we've got a structure that positions them to make decisions, as you've heard from Greg, positioning our folks as close to the agents, as close to the customers as we possibly can. And I'll talk in a few minutes about how we back that up with a centralized expertise model. But the combination of great people and empowering them to make decisions makes us absolutely unique.

But then the second key part of our model is the ability to build and have very deep relationships with the absolute best agents in the country. You heard from Greg. He described them as the Ivy League of independent agents. We absolutely believe that. One thousand agents, \$1.5 billion in premium, significant penetration, significant share of wallet; it's a big differentiator. There's the second piece is deep relationships that start with the owners and the senior management team at Selective and make their way down to the front line underwriters and claims adjusters as well as the producers and CSRs at the agency level.

And then the third key piece, and this is where a lot of our investment has been over the last several years, is a high degree of sophistication in underwriting, pricing, and claims. If you look at these pieces together, there are a lot of

companies out there that are going to have one or two of them. Our ability to put all three pieces together, great people, great relationships with great agencies, and then the sophistication that matches the capabilities of a national company is what makes us unique. It's what makes our agents want to have us as their market of choice, their number one market of choice.

Let's talk about these three pieces a little bit more specifically. We talk about a field-based model on both the underwriting and the claims side. We think about the field underwriters that we have out there: Agency management specialists, they own the agency relationship. They drive new business production. They own their overall territory. We have inside underwriters in our regional offices. On the claims side, same concept. You've got CMSs out there and you're going to hear a lot more throughout the presentation, as well as field based litigation adjusters, workers' comp adjusters.

Having these folks out there and giving them broad powers to make decisions, now when you do that you've got to make sure that they're backed up by a level of expertise at a very specific level. You think about this model that we have out there. Underwriters and claims adjusters need to be generalists in their capability. You've got to make sure that you've got strong infrastructure, strong expertise backing them up, and you've got to do that in a way that appears seamless to your customers and to your agents, because if these folks are going to be empowered, they've got to make decisions real-time. To the extent that they need to refer things, it has to happen quickly, and it has to happen in a way that's invisible to the agents.

On the underwriting side you can see very seasoned regional management teams. Dennis Barger is going to come up, who runs our commercial underwriting operation, to talk to you about the expertise we have at a line of business level, GL, auto, workers' comp, and then also at a segment level, contractors or manufacturing or our specialty programs. Those are the folks that really own the product, that really establish the underwriting guidelines and the pricing structure and then pass that authority down to the field. And the same thing exists on the claims side and you heard more about this.

When you think about the concept here, it's local decision-making, local presence, backed up by centralized expertise. You'll hear that over and over again.

The second area we talked about is agency relationships. You're going to hear this over and over again. You're going to hear from a panel of our agency partners to really reinforce I think what you heard from us throughout the presentation.

We talk a lot about franchise value. What does that mean? That means we're going to give out our Selective contract to fewer agents than most of our

competitors. We're not going to have agents in the same locality bumping up against each other, competing against each other, coming in with that Selective product. It means a lot to a producer because they know if they can break into a prospect and get a chance with a prospect, there's not somebody else who's likely going to be in there from another agency with the Selective product, it gives them a huge competitive advantage. Again, the tradeoff in that model is if you're going to have fewer agency partners you've got to have a greater share of wallet in each one of those agency partners. That's the trade that we make and that's the give-and-take that happens to build our strong footprint.

And then the other piece and I hope you'll hear this as well during the course of the panel and I would encourage you to talk to the agents during the break or after the program, we're a very active management team. We're out there. We survey our agents on a regular basis. We host producer councils, agency councils, our President's Club program to get feedback from our agents. And I think more importantly what you'll hear from them is we don't just go through this exercise, we actually come out at the end and say, we're going to work on this, this, and this, and then come back and report on the progress we've made. Again, it's part of the relationship building that we do. But I think it's also part of the continuous improvement.

Just a couple of metrics there: You can see the \$1.5 million per agency. And keep in mind as you look across our 22 state footprint we only write personal lines in 13 of those 22 states. Our ability to get to that kind of a number, there's very few companies that are anywhere near that amount. That's the return on our franchise value model. And then the agency survey: so at an 8.3 out of 10 point scale, very, very high participation rate and actually if you look over the last couple of years, very stable results in terms of the survey despite the difficult economy and despite the things that we did to aggressively manage our underwriting and our pricing performance over that time period.

Then you get into the third piece, which is that sophistication. I'm not going to spend a lot of time on these slides because you're going to hear a lot more as we go through the presentation from Dennis and Allen and Doug and Brenda. Underwriting sophistication, again people are critically important here. We talk about having those generalist underwriters out in the field. That's a difficult job when you think about having a broad underwriting appetite. They need to know how to underwrite a very, very broad spectrum of products. That's why it's also so important to have that expertise resident in our corporate underwriting operation. We've really boosted that over the last couple of years.

You hear a lot about product development and appetite expansion. Agents want you to have a very broad product capability. We've spent a lot of time and energy the last couple of years making sure that our products continue to be best-in-class,

in certain cases getting into a segment and introducing a new product. You'll hear a lot more about that as well. And then tools: We've talked a lot about predictive modeling. We've talked about price monitoring. You're going to hear about some of our new capabilities in terms of the Dynamic Portfolio Manager, our advanced segmentation capabilities. This is what Greg said to you earlier about the local presence, local decision-making, backed by the kind of capabilities that a national company brings to the table. That's underwriting. You're going to hear more about that as we go on.

Pricing sophistication: If you think about our ability, Greg showed you that slide earlier that plotted out rate since the second quarter of 2009 and retention. And why is it that we were able to do that? I think Greg gave you a sense of this. Number one, we have great people with excellent tools that allow them to execute a very, very granular pricing strategy. And then the second key piece, and this is where a lot of companies are getting hurt on retention, is those relationships we talk about. If you're trying to understand how do I take the concept of relationships and necessarily translate that into results, this is it right here.

We have an ability to actually go out with a granular pricing strategy and then have real conversations, real honest conversations at a policy by policy level to understand can we sell rate here if it's in fact needed, where do we really have competition on an account and where don't we have competition. It's that balance and that back and forth that allowed us to do that.

Here's one way we look at the granularity. We've talked a lot about predictive modeling. This gives you a sense of our predictive modeling output and how we got rate relative to those different buckets. One and two is the worst performing business. These are not equal buckets. That's a little bit less than 20 percent of our business in those two buckets. You can see that's where we've driven the bulk of the rate. And then as you move forward over those four time periods you can see the three diamonds was your average bucket and then to your 4.5 bucket. This is one way to look at it.

Here's another way to look at it. Brenda will take you through this in a little bit more detail in a few minutes. For us, it's not just about having a predictive model score and saying this drives the answer on this account. We have set strategies at a state level by line of business, by segment, by agency, how is the account currently priced relative to manual rates. The tool that Brenda's going to talk to you about puts all of that together and provides pricing guidance at an individual account level and buckets business based on whether or not we really want to retain that, whether you want to put aggressive walk away pricing on the street, or you really want to focus on retention. If you think about it, the output of that is low and below average buckets of business, that's your worst roughly 20 percent of the business and then you can see on the other side your higher quality

accounts. And you look at the rate differential there and more importantly look at the retention differential. The notion that this is a straight trade between rate and retention is not right. You've got to understand what you're retaining and what you're losing because in addition to driving rate in excess of loss trend, you're also improving your mix of business at the same time. It's not just a straight rate and retention trade. You also have to look at it this way to understand how you're improving your overall mix of business.

And then this is just a slice by rate change. You can see the breakdown of the business based on the negative all the way up to the positive greater than 20 percent. What you'll see as the market moves is that middle slice, which is in between two and let's say seven or eight percent, that will start to drift to the right as the market starts to move. The bulk of your business is always going to be in that category of just needing to get a little bit better than loss trend. And then you've got the business on the far right, which you're putting out walk away pricing, needs significant rate, if you lose it you lose it and the business on the left you're totally focusing on retaining. But this will continue to shift to the right as the market moves.

As I said earlier, you put all these three things together and that's what's allowed us to drive that rate and not have a negative impact on the retention side. You're also going to hear a lot about claims sophistication. Very similar to the investments we've made in the underwriting arena, same thing on the claims side: Making sure we've got great people. Doug will talk to you about the things he's done to really improve the leadership structure at a line of business level. Made process improvements, introduced a lot more specialization. If you think about claims from a process perspective, the key is to get the claim into the hands of the person best equipped to handle it as early in the claim lifecycle as possible.

Doug will talk to you a lot about that, what we've done in that area to improve there and then starting to introduce a lot of improved tools in the claim area, starting to do a lot more modeling on fraud and recovery, a lot of process redesign work. Doug will talk to you about these things. But as you saw in the upfront section that Greg took you through, we expect to see about three points of loss ratio improvement over a three year period from these improvements in our claims arena.

Let's just shift gears a little bit because this kind of sets up the rest of the presentation when you think about the investments we're making. We play on the standard line side in two very distinct marketplaces. You have personal lines and small commercial and you've got middle market and large accounts. And we say this because the way that business is transacted from an agent's perspective or from a customer's perspective is very different. You've got to make sure that as you're addressing those markets you're addressing them in a very different way.

As you hear from Allen and Dennis on the small commercial side, these are some of the things it takes to be successful in the small commercial and personal lines arena. This is where you've got to have a very broad underwriting appetite within that particular segment of business. The CSRs, the customer service reps in the agent's office want to know that there's a high probability that they could place this account with you if it's within your appetite. This is where ease of doing business is important. Clearly automation is a big part of this. This is a lot more transactional. It's not a commodity but it certainly has more of a commodity feel to it than we'll talk about in the middle market and larger accounts arena.

It's got to be highly efficient. There's not a lot of time or energy to be spent back and forth on getting these accounts underwritten. Got to get them into the system. Got to get them written and issued and move onto the next account. And this is really where pricing sophistication is critical. You've got to have the models that support this because in many cases you've got to get this business issued without manual intervention. You've got to make sure you're putting good pricing on the street the first time out because there's not a lot of back and forth.

That's small commercial and personal. When you hear from Allen and Dennis on the small commercial side, I think you'll see that the investments we're making and have been making are really designed to help us better position ourselves in these key success factor areas.

Now if you move over to middle market and large accounts, on the small commercial and personal lines side you generally do not have producers involved. It's for the most part call in business. It's referral business. It's driven by the customer service rep trying to get that business transacted. On the middle market and large account side, this is producer-driven business. You think about our business model, this is where it's really designed to be successful long-term. This is where having those deep relationships, having a franchise value model makes a big difference. This is where having some differentiation on the product side makes a big difference, by providing better claim service, better loss control services. This is where that really sets you apart.

As you hear from us later on in the program, I think you'll see that the investments we've made in product development and a lot of the other capabilities are really designed to address this part of the market. When you think about it, again, as you hear the rest of the presentation, two very distinct markets and while we have one overall structure, we're trying to address these markets very differently to meet those key success factors.

And then the third area to highlight is the binding authority business, the E&S business. We recognized the need to introduce more high margin segments since

we're a product portfolio. A lot of the business we compete for, which would be classified as generalist type business provides you great top line opportunity but because it's broadly competed for and a little more pressure on the bottom line, we have some strong niches on _____ market side, we identified E&S as an opportunity to introduce some higher margin segments into our portfolio and specifically the contract binding authority aspects of E&S. This is small business transacted much like our what we call one and done, two and done small business that's transacted. It has a low limits profile, small average policy size but it allows you to put out very strong underwriting and pricing parameters to your agency partners, in this case wholesale agency partners, and then have the business driven that way, a lot of strategic fits in that regard.

But then the other key piece of this is our retail agency partners control a lot of this business right now but it tends to be written in a highly fragmented way through a whole host of wholesalers and there's an opportunity here to really take advantage of that and start to create some connections between industry partners. As you can see, we would estimate about \$300 to \$400 million of business that they control. This is beyond what we're identifying as part of the wholesale relationships in place.

Just a little bit more on the binding authority segment in particular. As I said earlier, this is not a situation where you're giving away the pen or you're giving away control of claims authority to the agents. These are wholesalers. These are not MGAs. You're providing the underwriting guidelines. You're providing the pricing structure and within those parameters they have the ability to actually issue the business. This is not a scenario where we're giving away control.

We do think it's very similar. Although it's a different segment, it's very similar to the success we've had in growing our small business one and done and two and done. It's template driven and you're giving authority to your agents to issue business as I mentioned earlier. So it is in fact written through wholesalers. It's a different business model for us. We've been traditionally in the retail segment with our standard business. Now this opens up a new distribution channel and as you can see a very small average account size, very similar to what we do on the standard market side.

And then just in terms of how we got into this business, as I'm sure you've seen, really two individual transactions. The first one with Alterra was a renewal rights transaction. You heard Dale reference this earlier. We knew we wanted to get into this business but we also knew we did not have the underwriting expertise or the wholesale agency relationships in order to do this successfully and ramp it up relatively quickly. We did a renewal rights transaction with Alterra which is now Stonecreek. It operates out of Horsham, Pennsylvania; a very experienced management team.

The other nice strategic fit is both of these companies have a limited distribution model. They've also taken a franchise value approach with their wholesale partners. You can see there are 35 wholesale relationships generating about \$70 million in premiums across the 50 states. They're continuing to build that out but it's a very, very limited distribution model.

That was the first transaction. And then the second transaction with Montpelier was to give us the infrastructure necessary, give us the license, not an admitted(?) company, to give us the technology platform. But it also brought with us additional premium volume. As Dale indicated, this also looks like a renewal rights transaction because of the adverse loss development cover in place. We've got another team out there in Scottsdale, Arizona. This is very relationship driven, surprisingly so.

You think about the relationship between the wholesalers and the underwriting company, because of the way this business transacts there's got to be a lot of stability there. It's heavily relationship driven. We wanted to keep both of these operations in place because they both have a set of very distinct relationships with wholesalers. We're making some changes to put some shared services in place, to make sure we're driving maximum efficiency. But in many ways it operates like our regional structure on the standard market side where each of them is defined not by geography but by the wholesale relationships they have in place. We're going to move forward with that platform.

But between these two transactions, and now we're through all of the integration to get the foundation built and get both companies functional on MUSIC paper, which is the one underwriting company, now we're moving forward and we think we've got a great platform on which to grow in the binding authority segment. I'll be back up at the end of the presentation to talk a little bit more about a couple of other topics. But now I'll turn it over to Allen Anderson to talk about personal lines.

Allen: Thank you, John. When we think of Selective, we think about a very strong, excellent commercial lines carrier. But as we listen to Greg and Dale and John talk, I think hopefully you'll realize as I go through my presentation that much of what they talk about, a lot of the strategies they talk about, about how we take rate increases, how we focus our pricing actions, how we work on retention, how we interact with our agents, those same theories apply to us in personal lines and how we manage our personal lines operation as well.

One of the questions I get, which is the first couple topics I'll cover here in the first few slides, is what's our opportunity here in personal lines? How big can we get? How aggressive can we be in our growth? We're not looking to be a top five

personal lines carrier but we're looking to maximize our opportunity within our footprint states and within our agency plant as well.

The first thing it does for us is it deepens the relationship that we have with our agencies. You'll meet some of those agencies today. But as you look across our footprint, the more product we can bring to those agents, the deeper our relationships will be and the better off we're going to be in building that partnership over the long haul.

The other thing is we talk about the direct writers and the direct writers stealing market share in personal lines and the growth that they've seen over the past several years. Well, if you look at the pie chart here, you'll see that the independent agent channel has about 34 percent of the personal lines market. That's been pretty stable over the last several years. Where the direct writers are really stealing the market share from is the captive agency force and the independent agents, the third that goes to the independent agents continues to go because they focus on service and they focus on product differentiation and they focus on that same relationship that they want to have with the local independent agent in their community.

Personal lines is in 13 states across our footprint and our agents control about \$3.5 billion of personal lines premium. Tremendous upside opportunity for us in personal lines.

Another way to look at it is if we had a little less than 1.5 percent market share across our 13 state footprint, which is about what we have in New Jersey, where we've been doing business for some time now, we'd have around \$900 million in personal lines premiums. That's our real opportunity that we have across our 13 state footprint as we look to continue to grow.

We're focused on profitability, focused on growth, just like you've heard some of the conversations around commercial lines and you'll hear more of that as well. The first thing we lead with on focusing on profitability is pricing. Now that's not all that's available to us as far as tools to use but pricing is certainly a big one and I'll talk a little bit more about that. But we also focus on improving our mix of business. You've heard us say before that what we want to do is we want to write more low frequency, high retaining business, business that we know is going to stick around with us for the long-term and business that we know is going to help improve the profitability as it stays with us and ages and we continue to grow our business.

And then finally, increasing operational and model efficiency through scale: Those are two different, two important items. By growing our premium base and increasing our scale we're going to be able to build much stronger predictive

models for our pricing. We're also going to be able to improve our overall combined ratio because we can continue to grow our premiums at a faster pace than we grow our expenses, which will help us on the combined ratio side.

I'm going to talk a little bit about homeowners. Homeowners has had an exciting couple of years if you've paid attention to the marketplace. There's no safe place where you can go and say that's the place that it won't hail or the wind won't blow or the tornados won't come or the hurricanes won't hit. But we're a very good home writer, a very solid home writer and we're focused on improving our results. The industry is focused on improving the results but we've been moving on price for several years now. We moved a little bit ahead of the industry as well. But we're making a couple of underwriting changes.

Again, the first thing we lead with on home is price. It varies a little bit. We're seeing some of our competitors take more rate in the Midwest than we're seeing on the East Coast. But we're taking rate really across our footprint. But we're changing some underwriting guidelines as well to get at really -- the home product continues to evolve and it goes back and forth through the years but over time people will once again start to use it as a home maintenance policy. My front door blew off, let me file a homeowner's claim. Well, that's not what it's for. It's really for the catastrophic losses, your home burns down, a tornado comes and destroys your home. It's not for those smaller losses.

Over the past, about ten years ago or so, the industry moved to a \$500 deductible and that's really where the industry has been for some time now is a \$500 all peril deductible. Now take coastal out of it, hurricane, that sort of thing. We have one, two, five percent hurricane deductible. But we'll be changing to a \$1,000 all peril deductible, unless your roof is over 15 years old, and then it will be \$1,500 all peril deductible. That's going in across our entire footprint.

We're also making changes to our underwriting guidelines relative to age of roof. Traditionally we've written roofs that would be up to 25 years old and that's going to be changing to 20 years unless it's a lifetime roof, slate, tile, that sort of thing. But we'll be changing that to 20 years.

Now the big benefit that we have and you heard talk earlier about having some of the power of the nationals with the nimbleness of the regional carriers, and by-peril rating really gives us that. We've talked for a while about by-peril rating. We rolled it out a few years ago and that has really been a huge benefit for us.

Now some of the nationals have this and some of the nationals will use it and maybe a handful of regionals. But really there's only a couple of companies that do it the way we do it, which is all in. We're being aggressive with the by-peril pricing to make sure we have the most precise rate on home that we possibly can.

And so if you think back ten years ago or five years ago even on how homeowners was priced, it was an average rate that was put together, and it was an average rate that was then put together by territory and then you'd apply a factor to it for the value of the home, the age of the home, that sort of thing.

Well now we do that by peril and we do that by peril in each zip code. It's different for each peril. We'll then apply different factors to that for, same thing, age of home, age of roof, but now we add in things like age of heating system, age of cooling system, do you have a central station alarm, that sort of thing. We've now been able to be a lot more precise in our pricing. And just like Dale, I have a bet on how quickly I can get you through these maps and try and make them clear.

But for the sake of time I'll spend a little bit more time on this first one, which is fire. But you'll see the seven perils. We actually use eight perils. But in this example, this is Ohio so we don't have the hurricane peril. It's not a coastal state. Our coastal states will have hurricane.

What you have here is this is essentially the pure premium, your frequency times your severity, your loss cost. Red is the worst, blue is the best for fire. And so this is your fire peril and this is your weather peril and those are really your two biggest ones. Wind will be bigger in some states than others. But those are your two largest ones.

In the past, these two rates would have been the average of those two put together. Then you would have applied again the same factor to them all, etcetera. Well, today we have a fire peril, we have a weather peril, we have a wind. And if you happen to live in a high risk fire area but you have that central station alarm or you have masonry construction or you have some of those other things, then we're much more attractive in those areas where you're less likely to be exposed to fire. The converse is also true as well. If you live in a bad weather area and you have a roof that's very old and about to blow off your rate with us is going to be extremely high and chances are you're going to go somewhere else.

Again, just to go through these, this is wind, a little more scattered throughout the state; water. And as I go through these, the impact of these perils becomes a little less in the overall dollar amount of the premium. Water, theft, liability, you can see liability concentrated in certain areas within a state, and then other, which is everything else that's come together. Again, in the past it would've just been an average of that all put together and now we've broken it out and we're able to develop a much more precise price for each homeowner that we insure.

Again, back to price, price is what we're focused on. In 2011 our renewal rate was about 6.2 percent. You can see going back to 2008 we continued to take more and

more price on homes. The first quarter of 2012 is up around seven percent. Now that's taking into account how the rate comes in throughout the year based on when the rate changes are taken. The other thing we do though, which you'll see some personal lines companies do is they essentially snap a chalk line at the end of the year and say, how much premium do I have in force at each line and each state? And then they'll take a look at how much rate are they applying throughout the year and what would that be worth on an annualized basis. And that's what we do as well. And so you'll see on homeowners the total impact of 2012 rate increases would be 11.5 percent again on that snap a chalk line at the end of 2011 number that we have.

We've been very aggressive on homeowner rate, again a little more skewed towards the Midwest than the East, which is really how the market is handling this as well. But I think we've been out in front of them for a couple of years. And you'll see that throughout that time homeowners retention has really been pretty stable for us. In fact, it's up a little bit from 2009 but really has not moved around very much at all.

Now I'll move on to auto. Again, the first bullet up here, maximizing rate; everywhere we can we're maximizing the rate that we take, making sure that we stay very focused on that. Continued mix improvements: You've heard us talk about changes we've made to our rate plan and our underwriting structure to focus on writing. I can't say it enough, write low frequency high retaining business, making sure that we're focused on that.

Underwriting restrictions: If you look at our production you'll notice that about a year ago we put in some new underwriting guidelines. We took some targeted underwriting changes, just like we take targeted price changes. We knew that was going to have an impact on our ability to write some new business but we knew it was new business that was really causing us the most amount of pain. We were willing to make that trade. We were going to write a little less new business last year, which is what we did. But we know that the business we're putting on the books is going to stick around a lot longer for us and ultimately perform much better for us as well.

We put in some underwriting restrictions last year that continue in place. Doug's going to come up and talk to you about claims initiatives that we're working on, three points of loss in LAE improvement that we expect over the next couple of years. That applies to personal lines as well as it applies to commercial lines. We expect to get that benefit as well. And then finally, we talk about age of book. You've heard us talk about the new business penalty. Well, it isn't just new business in year one. Year one is the worst performing auto business. Year two is a little better, year three is a little better, and it goes on as it ages.

Our average policy age across our 13 state footprint on auto is 6.9 years, a little less than probably where the industry is at but 6.9 years. Outside of New Jersey it's 2.9 years old, so _____ book outside of New Jersey. If that non-New Jersey book was 6.9, if it was equal to our countrywide average, it'd be a 3.5 point improvement in our auto loss ratio, a pretty significant improvement as that book continues to age for us over the next several years.

Continuing on with rate, in 2011 our auto rate was about 6.6 percent, a little less than that in the first quarter of '12 but you can see that the annualized impact for 2012 we expect to be around six percent. Now note the difference here. Again, we've been taking rate. We've been taking rate well above five percent, close to six percent, over six percent in the last year and every year retention continues to improve. That's not normally what you'd expect as you're taking rate aggressively but it's because we've been focused on the business that we're putting on the books and making sure that the business we've been writing over the last several years is the business that's going to stick around. From 2008 until the first quarter of 2012 retention on auto has improved by about five points overall, a pretty significant improvement on the retention side for us.

Where's our growth going to be focused on in the future? How do we continue to get growth? There's a couple of ways that we do it. One is we've expanded into new states over the last several years. We've added some states outside of our traditional New Jersey, Northeast footprint. We've added a couple other states out in the Midwest. We've added Rhode Island. You can see that our non-New Jersey premium has gone from roughly \$80 million in 2007 to close to \$160 million in 2011, just about doubling in size over the last five years, which means it's gone from about 40 percent of our business in force to about 57 percent of our business in force. That's happened through adding states.

But the other thing we've been doing, now you heard us talk about franchise value and our agency relationship. These are very targeted. But we've also been doing some very targeted agent appointments across our 13 state footprint and this is really where we have geographic gaps. We just haven't had agents in these geographic locations. Maybe there wasn't a lot of middle market opportunity there but we believe that there is a fair amount of small business and personal lines opportunity there. Not a large scale agent deployment but targeted and focused on geographic expansion. Plenty of growth opportunity for us here in personal lines as well.

Growth opportunities, the underwriting changes that we need to make when we need to make them, very focused on doing that. The improving age of business that we're going to continue to see on the auto side as we move forward, targeted but aggressive rate increases and then also increasing scale to make us overall

more efficient and give us better predictive models as we move forward for personal lines. With that, I will bring up Dennis Barger.

Dennis: Thank you, Allen. I'm the only thing that stands between you all and a break, so let's get started.

I'm going to give you some insights into some key success factors for commercial lines. John already mentioned this: Local decision-makers supported by centralized expertise. That's one of the key differentiators and values to our model. What does that really mean? In a traditional sense we have line of business personnel that lead each of the individual major lines of businesses and I call it say grace over those lines of business and provide institutional guidance and expertise into the field as well as into the corporate area.

The real value of what we get with centralized expertise is what we do in terms of segmentation and that is that we have three distinct industry strategic business units at the corporate level, contractors, manufacturing and mercantile, community and public services. Those teams of people working with the line of business folks have really developed expertise at a granular level looking at more than 80 different business segments.

We take all the SICs and put them into those three individual strategic business units. But there are some things we just don't have an appetite for. We have a real focus on about 80 of those and I'll talk a little bit more about some of what we do with those in just a moment.

With all of that, at the end of the day what we're really trying to do is help provide ability to provide the expertise, provide product development to the organization, provide referral capability again as an expertise to the field personnel because you've got more than 100 field AMSs and other underwriters in regional offices that can't always understand all these different segments that we do, providing them an expertise resource to come in and get additional guidance as well as doing training of our personnel and going out and conducting sales meetings for our agents. All of that is delivered to our regions to execute at a local level because the decisions are made out there locally closest with our agents.

We do a lot of what we do with a high degree of sophistication. The first that we take great pride in is our predictive modeling capabilities. We've invested a lot of time, money, and manpower in this and we are now on our third generation of predictive modeling. We've fully deployed this as two generations in four major lines of business. We're now working on deployment in the third generation. This gives us the ability to really granularly price some of the things that John talked about in matching diamonds and retention and pricing, etcetera.

Another thing that we do, I've already mentioned the three strategic business units and the 80 business segments. We get very granular in our ability to look at pricing, profit, production, etcetera, around those three segments. We build product around them. We build services around them. And that gives us the ability to get very granular and very analytical in what's happening in those individual industry segments by the industry, by local state, by line of business, etcetera. And so we have a lot of sophistication that frankly matches many of the national companies that are out there operating.

I mentioned price a couple of times. Again, one of our sophisticated capabilities coupled with the predictive modeling and the other analytics that we do is our pricing capability. The actuarial team and the underwriting team work very closely together with our field personnel, conducting state rate reviews, line analysis, etcetera. We're doing base rates, company analysis, tiering, schedule mod usage, etcetera, and we have a lot of sophisticated capability in this area. The real beauty of it is that we can deliver it at a desk level. We do that really in two things. One is it's delivered right in our what we call DSS, decision support system to the underwriter's screen. They can look at pricing live; so can our agent on the screen as well. The other thing, John mentioned this and Brenda's going to talk to you about this much more in detail, is Dynamic Portfolio Manager. All of the initiatives and actions that we identify at a corporate level that we think can help drive improved profitability into the portfolio, years ago that was all done as multiple different spreadsheets and things. Now we drive it all through one single source, down through Dynamic Portfolio Manager and it shows up on an underwriter's desk and they're able to manage all these multiple things that used to seem disconnected and now put it together.

John also mentioned small business and middle market/large accounts. In the commercial lines space we really operate in two market strategies. I'm going to talk to you about both of those. The first one will be middle market/large accounts. The reason we do that, we recognize that in these two spaces predominantly by size but more by some of the characteristics about these market segments, characteristics meaning that the buyer themselves buys differently and also our partner agents handle this business differently. And so therefore we have to look at how do we build products, services, capability different for these two different market segments.

The first one I'm going to speak to you about is middle market/large accounts. Our strategy there is we want to be a best-in-class generalist with specialty niches. What does all that really mean? Well, I'm going to tell you a little bit about it.

First, let's talk about best-in-class generalist. We understand that doing business with our agents we cannot possibly just be a specialist in a few really good niches because our agents do more than that. And so we also know that we have to bring

to the market to our partner agents a best-in-class underwriting approach for a broad spectrum of business.

What you see represented on this pie chart is a very strong representation of the kinds of industries, classes of business that we do. You see that contractors is the largest shaded. That teal color there represents currently about 34 percent of our overall commercial lines portfolio. About five years ago that was as high as 45 percent. Now of course economic conditions the last few years have shrunk that a little. But more importantly, while we have maintained a focus on writing good quality contractors, because our contractors also diversify us away from property CAT, any CAT business, leverages us away from that, the real beauty of what we've done over these last few years is that we have grown other things to augment the contractor portfolio that we have. And so we're building a very good, strong position with our agency partners in being a good contractor, underwriter, as well as other industry, general industry.

Let me talk to you now about moving from general. I'm going to go down micro to what does specialty niches mean. It means getting really, really intimate into some very unique things. One of those is we've built some sustainable ability in the social services marketplace. We've done that with very strong focus around underwriting, service, coverage, etcetera. This is a market segment that we've built specific coverages for our automobile, for the general liability, and for the property. We do a couple unique things. We provide business income on an actual loss sustained basis. For about a third of our social services classes we do provide workers' compensation. And the other thing that we do is safety management services.

Some of the unique things that we do here, not all of our other social services competitors do. Probably the thing we've identified foremost that we do that they don't is in infrared testing. Many social services, when they go to government agencies for loan money, etcetera, are required to get infrared testing done to prove that they've done it and that their facility is acceptable. We do that as one of the services that we provide in safety management, along with a number of other things. It's things like this that we get intimate at knowing what goes on in this industry that makes us a go-to market with our agents for social services business and allowing us to provide the kind of returns that we are.

What do we do when we try to figure out how to get into some of these different things? A very traditional approach: We identify opportunities. That's done either ourselves or our agents coming to us and telling us that there's some kind of a market opportunity. We look at demographics and economic trends, etcetera, and we constantly are reviewing and looking at possible opportunities. We go through a market research process. We build forms, coverage, services, etcetera, and we roll the product out.

More importantly, I'm going to show you how we did this with something here recently, paratransit. Not a lot of companies are in the paratransit niche. This really grew out from the identification process, grew out of already doing social services business and being in that for multiple numbers of years.

As we were writing social services business, we identified this was one of the emerging kinds of activities and businesses coming out of the social services industry, really out of the aging population. We went and did a lot more demographics research. We also found that in our 22 state footprint a couple things were happening: One, some of our states are growing pretty substantially in terms of demographic age population. The second thing is we saw a number of these risks beginning to emerge in those states. And we also identified that there weren't a lot of competitors in this space. We thought it would be something good to move into. We also had a little bit of experience with it in our existing social services business.

The more research we did, we found that we could use a lot of the existing products that we already had, so our cycle time was shortened up in terms of what we needed to develop to come to market with it. And then we really put a team of people around safety management underwriting, segment people, line of business people at building the underwriting box. We built a very tight underwriting box that I think allows us to play in this market space and part of that underwriting box is this is one of the few classes that while we generate it at a local basis, we co-underwrite it with the community and public services strategic business unit and we're finding some nice momentum out of this particular niche. We launched it back in the fourth quarter of 2010.

Other than developing broad-based product for a specific niche, we also look at our existing portfolio for emerging gaps or coverages that are there, emerging meaning the client is showing interest that they need it or our competitors are starting to offer it and if we don't offer something we have the possibility of losing out, risk, etcetera, to competitors and we certainly want to close up that gap. One such is CyCurity. This is our internet liability policy. We developed this primarily for our portfolio, meaning low to moderate hazard risk. We do it for service and mercantile kind of risk, some of our contractors. We avoid things like financial, healthcare, etcetera, things that are higher hazard on the grade of internet liability. We offer three product coverages. We do media liability, internet liability, and security breach expense. This is all done at very low limits, less than \$1 million. Frankly right now most of our portfolio that we write is less than half a million dollar limit. Again, it's an example of what we do to try to fill the gaps in emerging coverage needs for our existing customers.

I'm going to show you a short video clip just highlighting a little bit of the ability of Selective and what we do in the product development and segmentation.

[VIDEO]

Dennis: Moving from middle market/large account to small business and our strategy there, John already talked to you a bit about this, the need to be ease of doing business, responsive, defined asset type, automated, etcetera. That is what we're trying to do and not just trying, what we're accomplishing in the small business space. We are approaching this market from a template underwriting, predictive model driven business with a high automated throughput and that's really the approach that you have to take to be successful in small business.

How do we do that? First is pricing sophistication, again predictive modeling. Predictive modeling, we rely on it a lot more in small business than we do in middle. It's not to say we don't use it in the middle and large. But in small business in an automated environment you really build much of your underwriting around and your pricing around the predictive modeling and what that tells you in the automated workflow of things.

The automated underwriting technology, here again from a corporate line of business and strategic viewpoint what we do is we look at the entire landscape, all the businesses that are out there. And then we basically look at what kind of businesses can be template underwritten. And then you take that and mostly it's very homogeneous kind of risk that you can template underwrite so that you can create a nice, defined box in your system. We're doing that frankly right now. We currently offer a little more than 400 classes of business, mostly driven by our box(?) classes, which represents a little more than 50 of those. And then the remainder are made up mostly of some contractor classes and a few sprinkled other classes.

We've also supported all of that approach with then, in the field, we've placed small business teams in each of our five regions and those teams are really designed to handle the workflow and response time necessary to make this business truly an easygoing business for our agents because what happens is when you build an automated box there are things sometimes that don't fit the automated box or you want them to edit out because you do want somebody to take just a look at something. And so when the edits pop it comes to this small business team and their job then is to look at that and we're staffed in each of the five regions with personnel then that that's what they do in working with our agents to handle the edited business or what we call two and done. One and done, it goes right through the system; two and done, it comes out to a small business team person for them to look at and get responsively back to the agent.

And then lastly, and Allen talked about this a little bit, is our field marketing representatives, our resources. They're really out there now working face-to-face with our agents to really drive the message and understanding frankly, the training and development with our agency partners and their personnel. Particularly again, you heard CSRs versus producers. The CSRs are really the persons placed in this business so our field marketing personnel, they're responsible to go in then and work with that agency personnel to train them on what our market appetite is in small business, our automation capabilities, make sure they understand how to use our system and how to get things through on an easy basis with us.

With that, with local decision-making, _____ expertise, sophisticated tools, granular underwriting, sophisticated capability, we think we've got a very strong platform and value proposition to deliver profitable growth in the commercial market segment, both middle market and large and small business.

With that, Jennifer, nodding your head yes. Twenty minutes for the break. It's right at 3:00 by my watch; about 3:20 then come on back in. Thank you for your time thus far.

[BREAK]

Jennifer(?): Do you want to take your seats? Thank you, and we'll continue on here this afternoon.

Before we do, I'd like to thank a couple of people. This is not an easy thing to pull together and it takes a lot of people a lot of time, and we had a lot of people who did a lot of work. But I really want to highlight my Investor Relations team: Katie Royce, Investor Relations Manager – I think most of you may know her – and Brad Wilson back there in the back of the room, too, is our Investor Relations Analyst. They've put in many, many, many hours to get this all coordinated and pull it all together, and they did a fabulous job, so I just want to say thank you, guys.

We're going to get started here with Brenda Hall, who is our Senior Vice President in Field Underwriting.

[Background talk]

So Brenda's going to take over here. She's our Director of Field Underwriting and Business Intelligence, and we'll continue through the afternoon. Thank you.

Brenda: Good afternoon, everyone.

We're actually going to start by taking a look at a video to actually see our field model in progress, particularly around hearing from an agency and one of our customers as to why they believe that it's our people and our field model that truly does differentiate us in this marketplace and why we believe it positions us for success.

[Video]

Brenda: So from ease of doing business to underwriting, safety management, or even a customer experience, what you heard in the video was that it absolutely is our people and our empowered field model. It gives our agencies the encouragement and the confidence that they need to place their best business with Selective. Dennis mentioned to you a little bit about our corporate expertise from an underwriting standpoint in our corporate office that supports the regional offices, but it's our regional offices and the teams that are in place that truly differentiate us in this marketplace. Our regional offices are staffed with senior leadership and they're fully operational, fully operational being one of the key components to our structure. What that means is marketing, new business underwriting, renewal underwriting of small, middle market, and large accounts, as well as safety management professionals, claims professionals, all very well-positioned, empowered with broad underwriting and authority, and armed with the tools that they need to not only build those deep relationships and partnerships with our agencies, but to make sure that they're executing on our strategy and delivering results.

So I'd like to introduce you to a few of the key players in our regional offices and the team, and the first one is our agency management specialists. Our AMS's really are the centerstone of our field model. We have a little less than 100 of them throughout the organization. And while they report into the regional offices, they actually live in the territory in which they manage, and they're responsible for the new business production from a commercial line standpoint. But they're much more than field underwriters. These individuals are considered to be the CEOs of their territory. They're responsible for not only the ownership of the overall territory and the relationships, but ensuring that their territory is structured and performing that meets the overall strategy of the organization from a diversification standpoint, looking at new appointments, terminating agencies, truly the makeup of their territory they absolutely own. They're also considered to be the relationship manager, cultivating relationships and building those deep relationships with our agencies, and they do so by making sure that we've aligned resources and that our agencies can take full advantage of all that we have to offer from a product standpoint, services, and technology, as well as having broad underwriting authority. One of the key differentiators of this position compared to our competitors is not only do they live in the territory which they manage, they're visible in our agencies' offices and they have the authority to write the

business. And as you heard in the video, putting the decision-maker in front of the agency who's backed by the corporate expertise is key and of extreme value to the agencies.

And finally, relating it back to being the CEO of their territory, our AMS's are measured both on new business production – so on growth – but also on their overall territory's profitability, we believe creating the direct connection between accountability and ownership.

I mentioned to you early on about having the tools that they need to actually grow their territory. What we've done is we've built an underwriting system that really does give our underwriters the ability to not only evaluate the traditional risk characteristics of a risk, but also giving them swift access to additional information to take into consideration, information such as agency performance, so the rank in an agency; the profitability or the growth of that agency; their mix of business, taking that into consideration; the financials of a risk, integrating Dun & Bradstreet information into that process; predictive modeling; scoring each line of business and providing reason(?) codes to our underwriters; information that would support our CAT management strategy such as geo-coding individual locations; and finally, access to safety management reports, not only the reports themselves but the recommendations obviously to improve an overall profile of a risk; all within real-time, at their fingertips, giving them the ability to not only ensure that the decisions that they're making align with our corporate strategy but ensuring that those decisions can grow their territory profitably.

In the video, what you heard about was the safety management specialists, or traditionally known in our industry as loss control engineers, of being another key position for us. These individuals support the underwriting process, so they enable better risk selection. You heard Diane _____, the large account underwriter, talk about wanting to bring safety management out, because she can develop a greater understanding or a deeper understanding of the risk and the controls that that risk has in place. We believe that we need to be more strategic in how we've deployed safety management over the course of time, because we've found that when we do so, we can improve our hit ratio as well as improve retention. We believe that this is because of the consultative approach that we take with our insureds, making sure that our insureds see us as a risk management partner and that our expertise cannot only help a risk to identify the exposures, offer recommendations to make sure we're mitigating any future losses, preventing losses, as well as lowering frequency and severity, thus from their standpoint protecting their insureds' assets, and from our standpoint, improving the overall risk profile, a value-add to not only Selective but also to our agencies and to our insureds.

And the last position I want to touch on today are the renewal underwriters. Our renewal underwriters, as I mentioned, are in the regional offices and they work in

partnership with our AMS's, our safety management specialists, our claims professionals, as they manage their book of business, which is approximately a \$9 to \$10 million book of business. They themselves have developed outstanding relationships with our agencies. But in order to maintain a consistent approach in our underwriting – and again, you heard in the video, having consistency in our underwriting approach year over year is extremely important to our agencies and to our insureds – what we've done is maintained the same tools that the AMS's use when they write a piece of new business. Our underwriters utilize on renewal. They, too, have the access to corporate expertise, they have the broad underwriting authority they need to manage their book of business, and they look at their book of business on an agency basis, managing their overall agency's performance. They, too, similar to the AMS's, they're measured on both rate and retention. They also are measured on their ability to execute profitability improvement strategies, which I can tell you in this marketplace over the last several years was an extremely difficult task. But fortunately we rolled out – and a few people today have mentioned it to you – the Dynamic Portfolio Manager. The Dynamic Portfolio Manager rests on the underwriter's desktop and it actually is built into their underwriting workflow. Over the course of time, as we've invested in our data warehouse, we have the ability to really understand and know our book of business. As a result, we've been able to come up with very specific strategies to target our performance, whether that's by line of business, by strategy, risk characteristics, agency profitability. And what the Dynamic Portfolio Manager does is it gives us the ability to automate those strategies in a way in which they work together. The output of those strategies to an actual underwriter is policy pricing guidance as well as retention guidance, but more importantly, the impact that risk has on their overall portfolio. And what that does is give them what we believe is not only the ability to do what-if scenario analysis to determine what they want to do with that risk, but more importantly, it gives them what we call a walk-away price, being out in front of very tough messages to our agencies. Being able to balance those messages with an overall portfolio approach has been really the key to not only being successful in how we execute our strategies but making sure that we're able to drive rate and, in the end, ultimately improve the overall underwriting benefit to our organization.

So when you look at our empowered field model, you really can't look at just the AMS position or the safety management position or the renewal underwriter position as a whole or as an individual function. You really need to see the essence of our overall empowered field model, our local presence, the empowered ability to make decisions, having the corporate expertise to support our underwriters, as well as the deep relationships that we have with our agencies and our ability to execute strategies. We believe that's how we're positioned for success and how we're going to absolutely improve results.

And with that, I would like to turn it over to Chief Claims Officer, Doug Holbrook.

Doug: Thank you, Brenda. All right, no more microphone issues.

So now we're to the exciting part of the presentation, claims – tornadoes, hurricanes, all the fun stuff. So what is Selective's claim philosophy? It really is to achieve the best possible claim outcome for all of our stakeholders, the different stakeholders. If you're a customer of ours, we want to make sure that we settle your claim in a fair amount, we settle it timely, and we provide clear understanding to you of the expectations of what the claim process is and what you can expect to progress in a claim process.

From an agency perspective, the best possible claim outcome is to make sure that their insured is treated fairly, that their claim is timely settled, and that we provide someone that's the face of claims in the field so that there's a local field person that they can tell their insureds, here's who's going to be handling your claim in the best possible way. And obviously from a company perspective, the best possible claim outcome is really achieving all of those at the most efficient model possible. So can we align our resources such that we can afford to have claims adjusted in the field but also support it with highly specialized claims adjustment, depending upon the line of business, that helps us achieve the best possible outcome at the lowest possible price?

Really our holistic approach to claims is really looking at people, integrating people, process, and tools, and using those three to create a culture of continuous improvement so that everybody in the claims organization looks at what they're doing on a daily basis and ask themselves, am I doing this in the best possible way to achieve the best outcome? Am I adding value to the process? And if the answer is no, then use one of our tools that we've implemented, whether it's use of an Internet wiki type site, monthly calls to pass that information up so that we can integrate it into better workflows and better processes to allow to do that. The other thing that we teach our adjusters or claim professionals to ask ourselves, are we making the claim file better or are we making the adjuster better? So every time we integrate or introduce a process or a new tool, we ask ourselves those two questions to make sure that we're not doing something that's going to take the adjuster away from making a better claim outcome or making the adjuster a better person or a better adjuster in their professional development. From a processing standpoint, we really look at integrating data analytics and operational best practices to continually review how we do things and look for the best possible ways.

I'm sure you've seen this slide before but in different formats, and really from a claims standpoint, it's very similar to the underwriting side that you've heard. But

really it's the local field adjuster being there for the agent to sell to the insured, to have someone that they're going to have as the face of claims, someone that can be there, feet on the ground in case there's an emergency in the middle of the night, on the weekend, that can come in the adjustment process and make sure that the claim is being handled appropriately. But in order to make sure that that person, who's a generalist by nature, has the support they need, we have them supported at both a regional level, we have field leaders who are actually in the field that do ride-alongs with the adjusters, and we also have local field management that they can come into the office on a regular basis for training needs and stuff like that. Also, the field adjuster is supported by local line of business experts that we have in home office for work comp, liability, property and auto physical(?) damage that they can call on through a referral basis or send files up for reviews to help strategize on the cases and achieve the best possible strategy to get the best claim outcome. And the last arrow is really shared services. So how do we maximize resources so that we can provide services that really go across all the organization or all the different lines of business and all the different types of claims. So we have litigation support where we consolidate vendors and vendor lists in litigation management. We have our SIU or fraud team that helps fight fraud and partner with the field organizations to receive those. And we have subrogation partners that they can immediately transfer and refer cases over to from a subrogation standpoint to make sure that our intervention in a subrogation claim is at the earliest possible moment.

This is really a video to show how important that field adjuster is to the agency and the relationship with the agents and how valued it is not just to the agents but to the insureds.

[Video]

Doug: So clearly that video is a great example of what the field adjusters mean to the agents and the value that they put in those field adjusters.

Really just a quick example of what we've done to integrate people and process. In the last year, year and a half, we've looked at how we intake claims into our system and how we then assign those to the adjusters. And for the most part, our claims historically were given to us through faxed accords (?). Some were called in by the insureds, some were called in _____ with the agents. And what we're really looking to do is come up with better information on the upfront claim process so that we can get more information, immediately begin adjusting that claim from minute one as opposed to a day later or two days later. And so what we did is really we were embarking on a marketing campaign in conjunction with our agents, in conjunction with our field underwriters, to really get the agents to get their insureds to call in the claims. We've retooled our scripting for the first notice of loss so that we get more information, more detail, with respect to each

claim, and are then able to put that through a triage model to get the claim to the right person as early as possible. So if you have a work comp claim with a specific set of injuries in a specific jurisdiction, we can make sure that lands with a claims adjuster that has the right expertise to adjust that claim from day 1, as opposed to being transferred a week or two after the fact, so really retooling our first notice of loss system to really get the claim immediately into the hands of the adjuster that's best suited to handle that, and ultimately to achieve a better outcome on the claim.

Some of the process enhancements that we've done, you've heard about the three points improvement. These are some of the big ones that really are helping us drive towards that savings. We've got the liability complex claims unit. So if you look at liability, 60 to 70 percent of the dollars that are paid out in any liability organization are in the most complex claims, the smallest number of claims and the most complex claims. What we've done is realigned our liability units to create two complex claims units that have a span of controls, four to one, so you have very tight spans of control that allow us to get the claim early, put together a specialist that's very experienced in the industry, has a lot of litigation management experience, a lot of coverage experience, a lot of negotiation experience, and really has strong relationships with counsel that we then also try and specialize and put counsel on the right types of claim as well to achieve better claim outcomes on those liability claims. So the complex claims unit's been in place for about nine months now. We've seen great results from that.

In workers compensation, we look to break apart the workers compensation in what are the claim tasks associated and that are important in the life of a work comp file? So one of the single most important decisions in a workers compensation claim is, it is compensable? So what we did is put together a specialization model where we put an upfront investigation team in place. They investigate the claim early, they investigate it aggressively. They're very specialized and understand the compensability laws in all the jurisdictions that they handle, and they make that decision early. They also help us identify subrogation opportunities earlier and any SIU or fraud referrals that may be appropriate. So we're seeing better compensability decisions being made earlier. We also want medical management and medical overview, helping the claimant return to work as early as possible. So we put together a medical management specialist that helps us manage that medical appropriately who works with our doctors, works with our networks, to make sure that the treatment pattern is conducive to the injury and they receive treatment timely and they get back to work as timely as well.

The other one _____ fast track team. If it's a small, low-severity case, it goes into the fast track, minimizes the touchpoints on that, and closes it as soon as possible.

The last one on the list is the claims service center, which is really just consolidating all the high-frequency/low-severity claims in a service center so that you can do a low-touch/high-volume type business. We specialized the service center and realigned it by regional and geographic concerns so that we can get our service center aligned with our agents, aligned with our regions, and get them working together to provide the best customer service and timely outcome.

And lastly just are some of the predictive tools and analytics. I think they've been touched upon earlier. But a year and a half ago we introduced a fraud analytics model which continuously sweeps our claims system for information and data and anything that has flags. Whether it's day 1 or day 30, it gets an automatic referral to our SIU unit. The SIU units, we've seen a significant increase in the referrals that we've had because of this model. But more importantly, we've seen better referrals. So not only have we increased the referrals, but we've had more success on those referrals once we get them, and so that's very good. We're using that same intelligence to develop a recovery model and a more complicated and [break in audio] model to really get the assignment process honed in and much better.

Lastly, I've got a leader in claims metrics and finance that I brought in. He's in charge with developing comprehensive scorecards and data and dashboards at all levels of the organization, so my adjusters have daily dashboards or scorecards that they can use to see what kind of book they're managing, how they're doing on a day-by-day basis. The team leaders of those adjusters have scorecards that they get so that they can compare not only how their adjusters are doing on an individual basis but how their adjusters are doing compared with each other, across not only their own team but across their region and across other similar aligned businesses. So those are very good and comprehensive, and they all lead to really one thing, which is, get the three points reduction in combined ratio. The commitment is to reduce loss costs by three points over three years. We're into year 2 and we are ahead of schedule so far.

So thank you, and now I'll turn it over to John Marchioni.

John: Thanks, Doug.

So let me just hit a couple more key areas of investment for us, and then we'll move into the agency panel. So I want to hit marketing/branding and customer experience briefly, so let me just hit marketing and branding first.

Our strategy is not to build the brand like some of the national companies have done with major national television ads. I think we recognize that, especially in the middle market and larger accounts arena, our agents are still the ones that are out there selling our unique proposition. They're the ones out there convincing their customers that Selective is the place for you. But in the small commercial

and personal lines arena, we think that while that continues to happen, you're going to see more and more need to build some local brand presence, and we've done a lot of that. Our marketing team has done a lot with a pretty reasonable budget, got out there and done some pretty neat marketing buys and branding buys through sporting events. You see a couple of examples here with both the NCAA basketball and, more recently, into NFL. For those of you who have a few minutes later on, you may want to take a walk through Times Square. You'll see us advertising actually on the G-Tron outside of the Toys R Us store with an ad that runs four times an hour, 24 hours a day. So with a relatively limited budget, starting to do some things on a more local level, giving our agents some access to programs through billboards and mailing pieces, direct marketing campaigns, that they can deploy locally, radio spots and those sorts of things. So doing a lot more here, but again, not with a goal of matching a Geico or a Progressive or a Travelers in terms of their advertising spend on a national basis, but to the extent it becomes a little bit more of a tie-breaker in small commercial and personal lines when you're presenting multiple independent agency quotes, we think some of this local investment will pay big dividends for us down the road.

And then the second area I want to focus on – and you heard Greg allude to this earlier – is our investment in the customer experience. So like most insurance companies, especially independent agent insurance companies, have been very internally focused over the years, focused on underwriting, focused on process improvements, focused on claims adjudication. This is an opportunity for us to now take a step back and look at things from a customer's perspective to make sure that we're treating every customer interaction not as a simple transaction but as an opportunity to build brand loyalty. So what we've done is we've gone through a review, actually had some outside help come in and help us look at every individual customer touchpoint that we have – billing transactions, people transactions through our service center, policy documents, those sorts of things – and identify how we're doing and where are the opportunities to really improve upon that customer experience, and at the end of that process, really put together a roadmap to improve that customer experience. Again, the goal here is—because the bar's not very high, quite honestly. If you look at P&C companies, especially agency companies, the customer experience, this is a game-changer. It's an opportunity to really set ourselves apart. So that led to a series of initiatives that we're really focused on going forward.

You can see here the first one is a voice-of-the-customer survey, so starting to survey our customers across all major points of interaction and then capturing that information in a way that you can start to gain a 360-degree view of your customer. It certainly helps in terms of retention and certainly helps in terms of word-of-mouth marketing.

The customer invoice, the billing transaction, probably the highest-frequency/lowest satisfaction rate in terms of interactions with customers, not just for us but really anybody in the industry. So we went through a process that took us the better part of a year to completely redesign the look and feel of our bill. It eliminates an awful lot of confusion on their part, eliminates an awful lot of phone calls to our independent agency partners and to us. And it's an improved experience but also helps us on the efficiency side, so that's a project that's been absolutely completed. So the voice-of-the-customer survey ongoing, this one's been completed.

And then also you heard Doug allude to this a little bit on the claims side, but in our service center on the underwriting side, our folks interact with our customers to a certain degree in a certain number of transactions, making sure that they have the skills necessary to treat those interactions in a way that's going to build a real positive experience and ultimately drive improved retention and lower acquisition costs. So in terms of the opportunity here, certainly to the extent you're providing a better customer experience, you're going to improve your retention, and improving retention in this business obviously drives profitability. You're lowering your acquisition costs as well because you're creating a lot more word-of-mouth marketing. Again, we're trying to track net promoter scores through this voice-of-the-customer survey. A net promoter is somebody who, based on their experience, is going to go out and recommend that their friends or their family buy a product from us, so that's what ultimately the goal of this particular process is.

So hopefully you got a sense through the course of this afternoon. As Greg talked to you early on, our focus has been that local presence, local decision-making and relationships of a regional, and combining that with the capabilities of a national through really, on the insurance side, these three areas – great people empowered to make decisions, great relationships with the best independent agencies in the country, and then a high degree of sophistication in terms of underwriting and pricing and claims. So I hope you get a sense as to the investments we've been making over time and continue to make to be successful in that regard.

So I'm going to launch a video introduction of our agency panel, and then those folks will come up and we'll get started with the panel discussion.

[Video]

John: All right. So what we'll do is, I'm going to run through a series of questions, get some conversation going amongst the agents. I think it will really help to reinforce everything we talked about in terms of our strategies and hear in the agents' own words as to how they view some of these capabilities. And then we'll have some time for you to ask questions directly to the agents. And then after

we're finished, Greg will come back up and wrap things up and you'll have an opportunity to ask more general questions to the Selective management team.

So let me start. And Mike, I'll ask you to get us started here. We talk a lot about relationships and the importance of relationships and our focus on that and how that really drives the business. I think it would be helpful for you to provide a little bit more of an agency perspective on why it is. A, is a relationship really that important; and then B, why would that be, from your perspective?

Mike: I think we've spoken to this all day long, and as a broker, relationships are really what we trade on. I've been very fortunate to build a close relationship with Selective, and what means is, if I call an underwriter or even higher up, James McLane(?), who runs the region, and say, James, I'm working on a deal and this is the deal, based on the trust and the relationship I've developed with them, they, number one, believe me, trust me, and we end up doing the deal. That simply doesn't exist with the larger carriers, the national carriers. It's very, very difficult to build those same long-term, trusting relationships with those larger carriers, and I've found that Selective through the years has been very easy to build relationships with, and it just makes my job a lot easier. I'm able to do what I'm supposed to do for my clients and, at the same time, produce great results for Selective.

John: And then maybe somebody else could follow on, but more specifically talk about, how does that happen throughout the agency? So it's one thing to get in there and establish a relationship with a principal or a producer, but then how does that make its way through the rest of the agency to really build a holistic relationship?

Male: We do business with people we like, and our AMS and, as you heard, the CMS and SMS, those folks are in our office on a very regular basis establishing relationships with not only the partners but also the producers and the account managers. And so, again, it's very easy to place that business with Selective, and the relationship does mean _____.

John: John, I think you were trying to jump in from a company perspective.

John: Yeah. I was just going to say that a lot's changed in my time at Selective in terms of technology and how business is processed. But the one thing that hasn't changed and remains consistent is the companies that have the best relationships with the agencies get the best business. So our focus is on those relationships, making sure that we have the best relationships and we can drive the best business to Selective.

Male: Yeah, I'd like to just follow up on that and say, one of the things that has always impressed us about Selective from our organization is the quality of the people at

Selective. And you've all heard a lot of stories here today, but I think each one of us would say it really is true, the quality of the people, their visibility, the ability to get things done in our specific geographic areas. And when you have quality people, it lends itself—it's like a fire that went through our agency back in the day when we first started doing business.

John: So Jerry, let me just follow on with a related topic and ask you to get us started on this one. Another concept that we talked about, in addition to relationships and sort of related to it, is this notion of franchise value. So we believe it to be important that you limit your franchise, especially in the middle market and large account side, and that actually means something to producers. Just talk a little bit about the franchise and what that means from an agency perspective.

Jerry: Yeah, it's a great question. Number one, being an independent agency, you're competing with other agents that have many of the same companies. And again, from our organization's standpoint, we want to sell not just on price – and we all know price is important – but the things that Selective brings, from loss control to the great coverage forms, just technology all through the line. You talked a little bit about your sense(?) to build from an advertising standpoint. Quite frankly, in our office, our customers—if you ask them, who's your insurance company, they're probably going to tell you it's that producer, because that's their connection, and that means so much in regard to what we do, where we place it, and the fact that we can count on you.

John: So Jason, let me jump to you, because as everybody saw in the introduction, Jason's agency has only been with us a little over two years now, and we probably talked a lot on the way into the relationship about our commitment to the franchise, our commitment to building relationships. Why don't you talk a little bit about—at least on those two topics, what's the early experience been as a relatively new partner with us? And then maybe get into a little bit about, why did it make sense for you to partner up with us?

Jason: Sure. When we look at a carrier to bring into our agency, we don't take it lightly, and we look for specific things, and Selective is known to be one of the best out there in our area, and so it goes back to franchise value. That means a lot. If you can get a Selective appointment, that's a really good thing. We were very interested in the field model. We know the field model is very rare in the industry and we know it works. And besides that, you guys have cutting-edge technology, you really do, and you're number 1 in our agency already. Our people are comfortable using your technology. Bringing you in, though, our AMS is fantastic. We were able to think(?) from the time that we initiated the appointment, the process took less than two months and our AMS made that relationship, that connection, very quickly in our office in bringing in the right people to connect with, so it's been a very positive experience.

John: So some would say that – and I'd ask anybody on the panel to take this one – the whole idea of relationships driving the business. We're moving into an era where it's all about modeling, it's about information scale, computers making decisions. Maybe one of you can talk a little bit about your long-term view on a relationship, people-driven model continuing to be successful in the future.

Male: I'll just weigh in briefly. It ties into the relationship piece that I started on. But it's hard to build a relationship in one or two years, and it's not uncommon in many insurance companies to change underwriters, to change field personnel, to change—the personnel changes all the time. With Selective, the AMS in particular, the claims specialist, we seem to be able to hold onto these people for four, five, six, seven years at the time, which, at least in my experience, just doesn't happen with most insurance companies. So again, over time, you can build a strong relationship and it's just very difficult, as I said, to do that in a one or two-year increment and all of a sudden, oop, new underwriter, oop, new field rep, new claims specialist. So I think that's been a very effective part of our relationship with Selective, is the long-term nature of these relationships.

Male: I'm going to add to that. The experience that we just went through with one of our national carriers, we had a relationship there and they decided to close down our regional office, and within weeks, the flow of business just stopped. And so consistency with underwriters, your AMS, SMS, it's very important, that continuity out there.

Male: John, one of the other things, too, is Selective, that really adds to the franchise value is the not only the financial strength of Selective but also the consistent underwriting, consistent pricing, and the fairness in claims handling and service.

John: So John, from your perspective, because franchise value conceptually sounds great, but obviously it's a two-way street. You're going to limit your franchises, which means you've got to maximize your production per relationship. So John, surely you've run into some situations where you or your folks have had to make some tough calls, so just talk a little bit about agency management in general and that balance between keeping the number of franchises limited at the same time you're trying to maximize probable growth in a territory.

John: Sure. Really our goal is to have fewer agents, if we can. So the first option is to try to use the agents that we have in place, the appointed agencies in a given area, to reach a certain level of growth. However, we do have growth targets in an area, and if we are not able to get it done with our existing plant, then we do have to think outside of our existing appointments. Fortunately, that is not something we have to do very often. Typically we have the agents we need in an area, they're getting it done, we give them every chance to get it done. We bring a lot of tools

to bear to make them want to keep that exclusive appointment in that area, or semi-exclusive. But to the extent that does not get done, then sure, we need to discuss other agencies, plan with other agencies, possibly bring on additional appointments as needed. Those kind of discussions are ones that we have openly and honestly with our existing plant, and we certainly, again, give them every last opportunity to maintain the franchise before we go outside.

Male: John, I think you asked a question, too, in regards to the tools that are in the industry, and you hear all the companies today talk about their predictive model. And again, I suspect that my peers here would agree. But we've seen with some carriers—quite frankly, I have one of our top three carriers that went to a predictive model that was no longer a tool, it was the mandate. And quite frankly, we don't even need the underwriter anymore, and that book of business is dwindling so fast because the model says. It lends no room for the underwriter to do what they were trained to do, and that is to underwrite. And when you take the human element out, it's a real problem, because any risk can be the right risk if it's priced accordingly, if you understand the issues. And again, if you look at the things that Selective brings from a loss control standpoint, from the demography...

John: Demographic _____.

Male: Yeah, there we go. Again, you're using the tools, you're using the expertise to determine, okay, what is the right price for this account. Does this account make sense? And again, I applaud Selective from the aspect that you've rated your book from one diamond to four diamond. You know very well which of those is more profitable, why. And again, if you take that human element out, you really lose that connection with the agent.

John: So let's just stay on that topic. I want to come back and we'll talk pricing a little bit more specifically in a few minutes. But you talked about those services and the things that we bring in terms of coverage, the things we bring in terms of service, and I'll go to one of the other folks to start. What's the sense in terms of just how easy is it to sell service if you've got a customer out there wanting to talk about price? When you think about the economy we've been in for the last couple of years and the point in the pricing cycle where you've been in the commercial lines area, how difficult is it to get your producers to get out there and make the tougher sell, which is trying to get folks to talk about service, sell that service, sell that coverage advantage, and keep it from being 100 percent about a pricing discussion?

Male: John, when you take your field model and take your CMS, claims management specialist, out to visit the customer himself, the client themselves, and they know that this is the person they're going to be dealing with if they have a claim, it's a

whole lot better than saying you can deal with this person or I can give you this 1-800 number you can call. And that usually seals the deal right there.

- Male: I can tell you from an underwriting sales perspective, one of our biggest advantages is having that claim support. Our agents look at our claim service as really tops in the industry and it make us going out and selling a policy much easier. I always say they are our best sales force, our claims people. They've built up that reputation over time and it's something that our agents believe in and they can go out and put their best clients with us knowing it's going to be in the right hands.
- John: So the other thing I want to just hit on, and John this ties back to something you said about you need to maximize production from the agents you have before you'll go out and appoint another agent. One of the ways we've tried to do that is through getting the agents turned on to maybe some unique products that we have, some product differentiation. You heard Dennis talk a lot about the investments we've made in product development and appetite expansion. I know a couple of you, and Jerry maybe we'll start with you, have had success by getting your producer married up with a product that we know we have some real competitive advantage for and let them run with that as a way to either jump start a relationship with a producer or an agency overall.
- Jerry(?): Yeah, actually a couple thoughts along that line, if I can. First of all, Selective, again one of the few carriers that we do business with that has partnered with us to actually help us train and bring along new producers, all the way from the process of finding that producer to then getting them into a program, helping offset that cost with us, and then launching forward. And with that, we at our agency, we do niche marketing. We have someone that does just non-profit. We have someone that does just banks. And so, taking your products, especially in the social service area, taking some in the manufacturing area, we train those producers in that segment, which makes them much more effective. And then again, we tie that in with the resources that Selective offers, really at no cost.
- John: Other examples and other folks and some pretty unique niche market with some of our products?
- Male: We have three new young producers and we've been doing the same thing. We try to stay general, generalist in nature, but each of them developing their niche and with Selective's products, each one of them have committed to a program, whether it's the garage program, the golf course program, para-transit, and that's how you differentiate yourself out in the marketplace as a producer. And you're getting away from price when you can talk about product, risk management in those categories where you can bring in SMS out and really target those markets.

Male: John, we've had tremendous success with a little leads program over the past few years in small business. Leads have come in. Our AMS has helped us devise a marketing campaign to out to those leads and we're getting appointments and we're getting business. So they're helping us track and find that _____ business.

Male: John, just to touch on niche marketing and our niche products. We are a strong generalist, but our niche products allow us to do several things. I think with our existing agency plan in the bottom of the soft market, our niche products allowed us to go after a new area of growth in some segments that we had not penetrated previously. I mean Jay's agency, we've been able to write a lot of para-transit business, a lot of day care business. Those are things that we didn't have the ability to do in the past. We came out with these niche products, there's much less competition in those areas. So those are things, again, when the rest of the market is really underpricing the standard segments, your printers, your machine shops that every company wants, we're able to go after that really more specific segment that has a higher margin. Second piece of that is, being able to go out, when we do look at new agency appointments, those niche products allow us to go out and appoint some agencies that wouldn't have necessarily been a fit in the past. And I know we've been able to go out and appoint some niche agencies, agencies that specialize in para-transit, agencies that specialized in day care, agencies that specialize in municipalities or social service. And that's been a significant growth engine over the last few years, both with our existing agents and with the new agencies.

Male: John, they say, too, that your niche products are industry-leading in coverage, and service, as well.

John: And your sense is that you can get a customer to listen on service on coverage and they're not just sitting there saying, listen, my _____ are under pressure, I just want to understand can you save me money or can't you save me money. How do you work through that process when you've got a customer who wants to talk about price and you want to convince them that that's not everything that they need to be thinking about?

Male: If I can, two quick things there. Again I said it before, price is always a factor. But one of the things that Selective has done that helped our agency is with your one-and-done program and the service center. We can't afford to have producers out writing business that's going to generate less than \$2,000 in revenue. It's just not practical. You can't get the agency where it needs to be. We can't get the producer to where they need to be. And so, by having that process, which works second to nobody in our office, you are absolutely first call when it comes to the service center. But then secondly, it's being able to focus on those prospects, whether they're a niche or whether they are general business that are large enough that they will understand through sophistication, through what they're doing, that

bottom dollar isn't always the right buy. I've used the phrase many times. It used to be people that would buy Yugo's and there's people that will buy Lexus. There's buyers for both. And it's those that they understand. They either have an issue; they know somebody else that had an issue. They need help in their risk management program. Those are the people that we want Selective in on so that, again, we can use those services.

Male: John, we had a recent claim example where a Selective insurer was in litigation and it turned out to be our CMS did a fantastic job of mediating the claim. And this is a risk that is always under pricing – the pricing concerns and they work on very fine budgets and very fine margins. And this particular risk was extremely pleased with the way that their claim was handled. She came back to me and said, thank you for putting us with Selective. Your CMS did a fantastic job. One of the board of directors for that organization came up to me and he said, I want to have my insurance with Selective. Price was never brought up.

John: So we've talked a lot about the sales process on producer-driven business. So producers look at the account, understand what they really need, and try to match up a company or two and then decide to try put with that company and if that company can compete on it. Let's talk a little bit now about the difference in the sales process when you're talking small commercial or personal lines. Jerry, you talked about revenue below a certain amount. You knew your producers aren't going to pursue it. Some agencies will have small business teams. We talked a lot about the differentiation and approach we're taking to try to make that more of an easy to use transaction. And maybe, Jason you could start on this one. Just talk a little bit about the difference of the sales process at the agency level and what they're looking for in companies for small commercial accounts instead of the middle market where the producer is involved.

Jason(?): Well, in our agency when we get a small account that comes in it's all about efficiency. And for us, we have one particular rating person who understands each of the different carriers. So when that account comes in, she's able to rate it up and she'll go to the one that she knows best or is most efficient, and that's where you guys really come in strong is with that technology.

Male: John, a lot of the small business, and in personal lines, too, tends to be much more transaction oriented and Selective provides us with the automation platform to get it done and get it done very efficiently. But it doesn't totally remove the personal lines aspect of it. We still have field underwriters. We still have those safety management folks and the claims folks that can go out and visit some of the smaller accounts when necessary. But you give us the technology platform and efficiencies to get it done.

- John: So those who would argue that that's small commercial, and then Jay I'll come back to you on personal lines in a minute here, is really a commodity play. You would argue that you're still picking a group of partners that you know you can rely on and then you're pricing the business and making the choice as the most appropriate for that given customer. That it's not purely, give me the lowest price and I'm going to try to sell that low price.
- Male: When I was managing partner we would always try to identify two or three carriers to place that type of business with and inevitably our customer service reps or account managers would place it where it was the most easily accomplished task. Even though we might say, oh we really want to build this company up they looked at me and go 14 steps. I can do it four steps over here. And so, your platforms have in fact driven that small business your way simply by ease of doing business. It is a consumer product, as you're saying, to a large extent. But ease of doing business is critical.
- Male: One of the things that's helped us write new business and certainly retain good business is Selective service center. They have people that are there that are able to answer the telephone and make decisions. They're empowered folks that have the ability and authority to get stuff done where a lot of the competitors don't. They have to say, okay, well I have to get this approved. It may take a few more days. And that kind of timeframe is just unacceptable in the small business and personal lines arena. We need to have it done now and it's got to be very, very efficient, and your folks do a wonderful job. It's just as if the client were talking to somebody in our office.
- John: And Jay, you would equate personal lines – the personal lines process to be very similar in terms of not a pure commodity play. You're looking at the partners and you're going to rate up business for a couple of companies and decide what makes the most sense for that particular customer?
- Male: Absolutely.
- John: All right. So let's shift gears again a little bit and talk about E&S. So we've laid out our strategy for getting into the E&S business. We've talked about the fact that it'll be a wholesale driven sales process for us but we want to make sure that we situate ourselves in such way we're creating connections between our retail partners and our new wholesale partners and want to capitalize on that opportunity. So just talk a little bit about, and Jerry maybe you could start on this for us, talk a little bit the way that business may be placed right now throughout the wholesalers that you do business for us – with rather, and then what kind of opportunity you really think there is for us to capitalize on more of that business through these new wholesale partners.

Male: Thanks. It's a great question and the whole concept is get in the excess and surplus lines market there's probably thousands, certainly there's many, many choices and different companies, whether it's Lloyds of London or somebody in between, but the problem is you don't know who you're dealing with. You don't know if you can count on the response. You certainly don't get the services. You don't get other things. And so, from our perspective, we were very excited when Selective got into this arena because now we have the hope that someday we'll have a very close relationship with that. Now we know who stands behind this. And again, it's just like – because you have the memory and the understanding of how Selective does things, how management makes the decision, you know that it's a quality product. You know that it's going to be there. You're going to be able to trust it.

Male: We've actually asked several of the wholesalers we deal with are they doing business with Selective's E&S companies. If they're not, we've asked them why not and that we've tried to identify a few key MGAs out there that are doing business with you guys. And whenever I've called the E&S broker to try to place a piece of business, I asked them, can we put it with this company. They know the relationship we have with Selective. I certainly know that Selective will stand behind it, like you said Jerry, and the service will be there.

John: All right. Let's move on to pricing, which I know is a topic that's top of the line in terms of what's happening out there. But before we get into any sort of prognostications as to where you think things are going, let's just start, and Mike I'd ask you to start on this topic. We spent a lot of time in the prepared presentation talking about the fact that we believe we took a very granular approach, that we took a very deliberate process that had a lot of communication and was not, by any stretch, across the board and in taking a leader-type approach. Just talk a little bit about your experience with that approach and what are you seeing with some of the other companies out in the marketplace relative to how they're handling the changing environment relative to _____ in the market.

Male: Well, I think I'm lucky in that most of my clients are four and five diamond clients and we've been able to get away with one, two, three, four percent type of increases. But I've always believed in trying to be stable and/or if prices have to go up, let's go up slowly. Let's not overreact. Let's get the prices from the clients that have had issues, have had claims, changes in operations, which require different underwriting. And again, Selective has been excellent with my book of business in that regard and with our entire firm. And there is a time when a higher than average rate is appropriate. Again, _____ based on communication with clients, so they typically know a year in advance next year's not going to be as good as this year. Here's why. Here's what's going on in the market and here are the losses trending, and therefore, you can expect higher than average. And again, I'm going to say Selective has been exceedingly receptive to my input on what

type of pricing we can sell versus not. The larger carriers – I think we’re supposed to try to avoid certain names and I will – but there’s a couple of big carriers out there right now that they’re pretty much putting pricing out as take it or leave it. Not uncommon to get a 10% increase on an account that’s been loss-free for five years and the carrier says we don’t care if we lose it. And these carriers are putting out in their press releases. We see it everyday. Their retention rates have taken a six, seven percent hit and yet they don’t seem to care. And I’m thinking, I don’t follow that line of thinking. I don’t understand why a national carrier would attempt to push that much rate. We still are somewhat in a recession. Most client sales and rateables, payrolls are, in fact, increasing, so the carriers are going to get more money. The payrolls go up 10%, sales go up 10% those product lines go up. But they’re also trying to get rate. And so, when you go into a client and say it’s a 10% increase, take it or leave it, they’re looking at us really hard saying, so what else are you doing for me. And it does create opportunities for companies like you, which have I think a more, as you use the term, granular. There’s not a one-size fits all when it comes to pricing commercial accounts. Not in the marketplace we play in, but.

Male: John, our numbers are up tremendously this year in new business and a lot of the reason for that is we’re seeing very good accounts that are put out to market and the rate is socialized across all the business that’s going out from certain carriers. It’s 10 to 15% in some cases. Hey, we need rate, we need big rate, and we’re going to put it out. And again, take it or leave it. And that’s where we’ve been able to pick the ones that fit, the better accounts. We’re able to take that baby that they’re throwing with the bath water and put it on the books at a reason price that everybody can live with.

John: Just add one thing. I’ve always been surprised that an underwriter who’s been told, let’s say by management, we need to get an average eight percent increase this year. And I’ve always been shocked at how many underwriters simply say, well, I know how to do that. I’ve got eight percent out from everybody. I’m literally shocked versus two, three here, 10-15 there. Get your eight percent, but get it where you should because you can sell price to the right client under the right circumstance. But everybody shouldn’t be treated, in my view, all with the same approach.

Male: We talked a little bit about your modeling earlier. Again, I think your modeling is far beyond what many of the national carriers are doing now. Greg, you’ve said it for years, being able to have that granular approach with accounts and you live it everyday. And pricing, whether you’re pricing new business or an old business you’re able to hit the mark. And having that underwriter there, that flexibility to get the price that you need, but not to run the business off, _____ key.

- Male: Well – and one of the things that we said particularly, it wasn't easy two years ago, a year ago when Selective said, hey, we've got to get a couple percent and – because every percent you get on your book is a big number. But the reality of it was, I sat down with our producers at our weekly meeting and said, look, one percent, you can't get one percent from a client? Let's think about this. And because we were able to get one here, two there, maybe three, or in those accounts that needed it we got what we needed, but that made it a lot better. As others have said, too, if I'm getting one and a half, two percent three years in a row, now I don't need to get 10. Now I can take four. And so, that approach for us today is a lot easier than some of the other carriers. I mean we have a regional carrier that just came out and said every policy here is getting a five percent bump. Well, some of those accounts don't deserve a five percent bump and some deserve a lot more. So that business is on the street. And again, being very inflexible. That doesn't work for us from the agency side. And again, that's where Selective said, hey, I need a little, I need a little, and now if we have an account that's in jeopardy, we know we can call the underwriter and we can say, hey, on this one, here's what we think we've got to do to keep it from going away. So.
- Male: And that gets back to your relationships with your underwriter. The EMS is there. You're talking to him on a weekly basis. He knows who you are. He knows that he can help in those cases. And when prices are starting to tick up that relationship really does matter, I think and because...
- John: So one of the dynamics that have been in the market – has been in the market as it started to turn in the last couple of years was this notion that companies – the same company would take a very different philosophy on perspective new business accounts versus what they were trying to do with their renewal accounts. Are you seeing that start to change or does that continue to be a force out there that may work against the ongoing firming(?) in the market?
- Male: Well, that goes back to, again, I see it as the relationship you have with your agencies. If your agents want to place business with Selective, they're going to place business with Selective based on your products and services and not purely driven on price.
- John: So you're seeing generally, though, more discipline across the market, which would indicate that this firming(?) cycle has some staying power to it?
- Male: Yeah.
- John: Is that kind of universal or does anybody have a differing opinion on where we're going with price?

Male: I think as a general rule you're correct in that about everybody says the same thing. We've got to have rate on property. We've got to have rate on work comp. Our loss ratios verify it. And yet, you'll see national carriers in my mind that they're mandating double digit increases here to new piece business and their philosophy is different. And so, there's still some concern there. There's still a lot of capacity. And there's still a few carriers out there that you just don't know what they're going to come up with. But as a whole, I would say it's certainly a lot better than it was a year ago.

Male: And John, there's carriers that are still going as low as they can go to buy the business up. They're running tremendous combines right now, so I mean that will not last. So the business that those companies are buying right now, it'll be back out on the street again next year.

John: There's a final topic I just wanted to hit quickly. We can open it up for questions after that. There's been a lot of discussion around the aging population of the independent insurance agency channel, difficulty in attracting newer producers into the business. Jerry, you referenced some of the things that we've done to help our agency partners with perpetuation, with developing very strong sales programs and cultivating new producers to sell things other than service or something other than price like service and coverage. Maybe just talk a little bit, and I'll throw this open to anybody, as well, talk a little bit about where we are as a distribution channel and what are we doing to start to attract some younger talent and that are going to the future owners of independent agent and maintain that viability of the channel.

Male: Well, I think as a general statement, the agency side of the business has done a terrible job of publicizing who we are and the fantastic opportunity that is out there for people that get into insurance. And having said that, I was blessed to be associated with partners that 15-18 years ago began a perpetuation plan. Spent a lot of time, energy, money putting that together, and today we, 15 years later, we've transitioned three – the original three founders of our organization out. That was all funded. And then from there, we now have seven of us that are the shareholders going forward. And we continue to want to promote that model so we don't end up being forced to sell to some large national broker or something else like that because we look at it that we have responsibility to our people, we certainly have a responsibility to the carriers that we do business with, and to our clients. And so, the whole perpetuation idea, bringing in new people. We actually like to hire our own, train them through our own systems so that we're not hiring people from other agencies that possibly were washouts. So we have a lot of energy focused on that.

John: All right. Is there any comments on that? Why don't we open it up to questions in the audience? I think we have a couple of microphones that we can pass around

for those who have questions for the agents, and then we'll get into a management Q&A after this. Craig in the back.

Q: Thank you very much for your comment. Perhaps you can spend a minute and talk a little bit about your own agencies, whether they've been growing _____ last couple of years _____ stable. And then I know you touched upon various comments you've made, but when you're out there selling or rating based on _____ this year and prior years, is there any concern that part of your competitors might be looking over your shoulder for the carrier that's offering a discount _____ market with and how do you approach that?

John: So why don't we start with the overall growth, some commentary around how your agents are doing. Mike, we'll start with you.

Mikr: Well, I'd say we're blessed and fortunate that we've never had a year where the revenue, commission income, the income was less than the prior year, in spite of the recessions, the ups and downs. We never grow a lot, but we don't ever go backwards. And a lot of it has to do with relationships with both clients and the marketplace. But part of that is because if we lose an account, and we can and do lose them every now and then, and I'd say 90 plus percent of the losses come from a large client selling out and the home office is in San Francisco or _____ from us. But the good thing is everything we sell the buyer has to have, so that means they're buying what we're selling. We just have to get them to fire their current agent to hire us. And so – and that's just the way we tell it. Can you fire your broker if we do a better job? And that's just – a lot of times that stuns them. It's like a two by four. They go, what do you mean. No, I'll just be making a change. No, you'll be firing somebody to hire us. But the point is you can go out and get business. And if the agency has good markets and good salespeople, great service teams, then you can go out and get new business. So there's a great opportunity for agencies that are properly postured in the marketplace with good carriers and good people to continue to grow. So I hope that answers the question.

John: Go ahead Jay. We'll come back and hit the new business question in a minute.

Jay: Our agency has been growing, as well, over the past couple of years. I mean it's been a tough economic environment. It's been a tough insurance environment. But we, too, have been growing.

Male: Yeah, we've experienced growth every year. Like Michael has said, I think it comes back to if you sold strictly on price you're in trouble for several reasons because they'll move for price. If that client's only concerned about price, they maybe aren't even around today. So again, I can't emphasize enough what it has meant to us to be able to partner with Selective to use the resources that you've made available, whether that's CIB to help recruit and train, to do additional

training for our people, for the loss control staff for being able to offer the training videos, things of that nature to educate our people to make us better at what we do so that we can find those clients that truly are interested in more than just the bottom dollar.

Male: Our agency has also experienced just a nice steady growth over the years. Partners with Selective make it possible to continue that growth. Again, we brought in three young producers a couple of years ago, around the same time that we partnered with Selective. And the amount of training and effort that your people put into our people is second to none, so.

John: So let's come back around and we'll start with you Jay. This is on the second part of Greg's question, which was more about kind of the changing environment out there. What was it a year or two ago? And how – you as agents and the owners probably had a pretty good sense as to the market dynamics and what was happening out there where you could envision where a lot of producers were scared to death to try to sell a rate increase of any kind because they figured there was another agent knocking on the door of that client with a company or two willing to come in with bare minimal pricing. How do you overcome that and have we seen that really change? I think that kind of captures the essence of the second part of your question, Greg.

Male: I think it gets back to what Michael said as far as communication with our clients. As long as you are communicating with a client a year in advance, and the relationship's there, that really does help when you start having to talk about price. If they're not expecting it, that creates all sorts of problems. But if you're out in front of the client and you're communicating with them efficiently, typically it's not as big of a deal.

Male: If I could share a real life case that goes to the question perfectly, and that is a year ago it was a Selective renewal and I had another agent come in and my client said, look, we're not looking but this guy wore us down and we're just going to... And so, that agent came back and they were 25% less premium than what we were. And the client called and said how can this be? The implication is we ripped them off. But I said, well first of all, who's the carrier? I won't say. And so, we identified who the carrier was. I did some quick research on that carrier. It probably took me about an hour. Well, lo and behold, five years earlier or so they had come into Michigan where I'm from. They had gotten burned because they did low price and they were gone again. Now here they came again for the second time, so again they were selling strictly on price. They came in. They were trying to undercut the market. And I just laid it out for the client and I said, look, we've been with Selective. It's been very stable. Look at their financial rating. Talk about a couple of claims we had over the years. How that experience went. That was a done deal. They stayed with us. It was no problem.

Male: We've been very fortunate in that we've had – there have been several agents in my area that have been selling on price for the past several years. Don't know how to do anything but sell on price. And they've got no relationship with their clients. They're out of here. Just tell them the lowest price. And if we can come in and establish a relationship with the client, bring the additional value added services that a company like Selective offers, it's easy to seal the deal. And now upon renewals, if we're seeing again consistent, steady, and even moderate price increases, the client's staying with us because we're out in front of the client, we've got that relationship, we're talking to them about coverage, we're talking to them – and they know that they've got a complete insurance package.

Male: I was just going to add to it, John, that we mentioned in the course of the presentation a portfolio approach. We're working with our agents everyday to figure out which customers – where are we in the buying cycle. Which customers are shopping their insurance, where do we need to be from a pricing standpoint, so there's a lot of back and forth conversations to figure out where the price needs to be and what we need to do to retain the best accounts. You would think that would be common sense and that would be done, but I will tell you in the agency space it's pretty rare to get those kind of back and forth conversations. And typically a price will just go out and an agency, again, it's take it or leave it. So that's been something that we've deployed over the last couple of years, that portfolio approach, and we've been able to keep our retention up and fight those situations off where somebody's shopping for price.

Male: And John, may I also say that very few, if any, of our other carriers do that and offer that to us. Selective is very unique in that.

Q: Two questions. Firstly, do you all quantify the value of your relationship with Selective relative to other carriers and their agencies in terms of loss ratio in your business ____? I was hoping you could perhaps quantify that in terms of some numbers. And then secondly, do any of you all have a material business, revenue stream ____ personal lines? And perhaps you could talk about whether Selective has similar representation in the personal lines as they do in your agencies in commercial lines?

John: So why don't we – let's start with the second question first because Jay is the obvious one to handle the question around your mix of commercial and personal and how to compare to Selective's mix of personal and commercial. I think Jay is the obvious one because the other three agents are from Georgia and Michigan, which because of the overall environment out there, are states may choose not to do personal lines, but certainly in South Carolina we do. So Jay, why don't you take that and then you've got the rest of them, could queue up your responses to the first question about quantifying value.

Jay: Our agency is half the – half the revenue comes from personal lines, so it's very important to us. And it goes by the relationship we have with Selective. They bring the same tools that they do in the small commercial and large middle-market business to personal lines. They offer fantastic modeling, a rating platform, rating support, the field claims folks are all out there at our disposal. And we've met with a lot of clients with the field claims folks and you can say, once again you can say, this is who is going to be handling your claim. And that means a lot to them. So personal lines, again, is very important for us. Again, it's a very material part of our book. We look to continue to grow that book with Selective. Selective has given us some new initiatives to help increase that book by cross-selling with the small commercial accounts we have. So again, you've given us the tools to get it done in writing new business with you.

Male: And we do measure our share of wallet at an agency level, both commercial lines and personal lines, versus what they do overall. So we know where the opportunities are and where we may not be getting a fair share of one or the other. So it is our expectation to get in there and build a balanced relationship.

So the second question, which is going to be a little bit more difficult is the actual quantification of the value when you think about Selective or another company...so how do we – is there an attempt to quantify that? So when you sit down either an annual basis or whatever to may be and say, let's look at the carrier partners we have and let's decide where do they rank right now, who do we want to try to growth with and who we don't want to grow with? Is that a very subjective discussion or is it very numbers based in your analysis?

Mike: Well, we are commercial only and so 1 or 2% personal lines, so again, added to what you said there. But we're fee commissions and incentive agreements with our carriers are our three sources of revenue. And we endeavor to not overly focus on the revenue, quite frankly. I mean I feel – I've always felt like take care of the client, the revenues will take care of themselves. Selective fortunately pays a competitive commission schedule on commission business. If it's an account we need to do net and charge a fee on instead, they can do that. Their profit sharing or incentive agreements we think are fair and in line with the industry and we think they're appropriate. I know there's a lot of talk in the press, especially here in New York a few years back, for obvious reasons – I guess no names there either. But agents were almost tattooed for the incentive agreements. But I've always said, if I place competitive – if I place very good business with a carrier, year in and year out, 20, 30% loss ratio, meaning way under their normal loss ratio, I should get paid for that as a broker. We've done a very good job in our firm of attempting to have really good loss ratio so that we can drive those incentive agreements as they should be. And it's a fair share. I think Selective does a great job in that arena. So hopefully that answers the compensation...

Male: And honestly, I would expect our agency partners to struggle with that question because for the most part, we don't do business with a lot of agents that are going to be focused on what's my total compensation going to be with you versus carrier X or carrier Y, and are looking at it as more of a long-term relationship and they do what's best for the customer relative to coverage and service. So I'm glad to hear that there's not a ranking. We would be surprised if we heard that. There are agents out there who like that, but I think our approach has always been to partner up with companies who believe, or agents who believe in selling service and coverage and Mike said it perfectly – the revenue will take care of itself. Other questions, Jay?

Q: Yeah, I have a question. Have the number of carriers, do you feel has that number gone up or down? Just curious about that. And separately, and try to be more – give some constructive criticism of say Selective. Are there things that the company could be doing better from your standpoint that you'd like to say?

Male: You want to start? Start out with number of carriers first and then we'll hit the other one.

Male: You would probably...

Male: I don't want to _____ it's not going to come easy for you to come up with an answer on the second one. So give them a lot of time to queue that one up.

Jerry: The number of carriers that we operate within our office has really stayed pretty much the same. We do, however, evaluate our carriers every year and we are looking for the things like financial strength, what are they doing in the marketplace, what kind of people do we have that we're working with, their quality of that knowledge and so forth. We've separated ourselves from some, but then we'll look – does it make sense to add somebody? But there's got to be a reason, there's got to be a need.

Male: Like Jerry, we remain pretty consistent in the number of carriers that we do business with. There are carriers knocking on our door all day long to come offer new products with us. And I personally have the feeling and as well as my partners, that if a company like Selective can come in and provide us with the products we need to get out and sell, I don't need to bring this other carrier in. Because typically the only thing they have to compete with is price. And I know that's not going to last, where Selective offers a lot more value. So we're placing that business with Selective.

Male: Number is pretty much consistent, like you're saying. A lot of companies get absorbed, carriers go away. So _____ gets acquired by and things like that, so it

seems like we lose one to a merger and acquisition, but then gain one through a specific need. But the numbers seems to stay about the same. I will say this though, most agencies, I would speculate would have somewhere on the order of – I’m going to speculate, 75% of their business with the top three carriers. And most carriers want to be in your top three. And so but it does seem to happen that inevitably, the majority of your business will be with approximately three carriers and then you have the other niche players that fill in the blanks.

And the only thing I would add is to what Selective could do differently, and we talk about this all the time – I’d like to see them go all the way to the Mississippi River and then Bill, in Georgia we do a lot of regional business and global, but a lot of our clients that are in Alabama, are in Florida, or now that we’re in Tennessee that’s great, but we would like to see them have a better model for helping us write the accounts in the neighboring states, especially when it’s just – there’s three cars in Alabama, what are going to do with it? Have a field office in Mississippi and all of a sudden you have a nice account that you just can’t quite put with Selective. So I’d like to see them increase the footprint commercially.

Male: Now that you’ve all had plenty of time to wrack your brains, any other additions than geographic expansion that you’d like to see Selective improve at?

Male: I think from our perspective, we would just like to have more of what you do for us now. Again, you continue to invest in not only us, but you continue to invest in your technology, in the products. We haven’t talked a lot about coverage forms today, but that’s one of the leading things that we look at and that Selective does so well. And in fact, even those situations where we need a manuscript or a special endorsement added to a policy, Selective has been able to do that for us, in some cases within 24, 48 hours, where a national carrier would just drop their jaw. There’s no way they could compete with that kind of a thing. So I think it’s really more doing what they’ve done already.

Male: I’ll put a little different twist on that and then go back to the question prior to that, in that I think I would quantify the relationship with Selective and say you’re number one. You’re number one in premium volume with us and the loss piece of it and that goes back to the franchise and protecting that franchise value. We’re very, very selective in what business we’re going to put with Selective. We don’t want to put a risk that would chance ruining a loss ratio with them and so we protect that relationship, we protect that franchise value. And as far as what Selective could do better, really, I look at it as what could other carriers do more like Selective to drive more business in.

Male: Any other questions?

Q: Thanks. Yeah, just curious on the agency field model which is obviously one of the attributes everyone has talked about being the best for Selective. I was just curious. There's only a couple of carriers that have this type of model, so why don't you think other carriers have gone a similar route and tried to emulate that model, the field agency model similar to Selective?

Male: Was the question why...

Male: Yeah, why haven't other companies – when you note the success of that model for the few companies that truly have it, why haven't more companies done it?

Michael: I'll just throw out real briefly, too many carriers I think are now specialty underwriters in a sense and Traveler's hates the world silos, but they still have them. They'll act like they don't, but they have so many different units, construction technology, FIB for the banks, etcetera, etcetera. And so if they were to have an underwriter calling on us, a Traveler underwriter or a field agent, a field underwriter, they would have an underwriter that knows how to operate with their 21 different business units. Where Selective is while still a generalist, they have figured out a way to get the support where it's more or less invisible to us, but yet as they've shown in all these slides, they have found a way to have that AMF call on us, be highly trained, be there all the time, yet have the backroom support to back up that strategy. And I don't think the other carriers have figured it out.

Male: Yeah, and maybe just play off that a little bit and that is as Michael said, our AMF, our field person very good, has a great knowledge, but as soon as there's something that they're not sure or comfortable with, they have someone that they can pick up the phone immediately and talk to someone that's an expert in that area. And I think that's what really makes a difference. A thought I had earlier was when we think of Selective, and I'm speaking for my organization, we don't think of the name Selective. We literally think of the people that we deal with day to day on an ongoing basis. And when we think of some of our national carriers or even some of our regional carriers, we think of their advertisement or their logo, their insignia, whatever. It's a total difference in that relationship through this model, I can't emphasize enough how big a deal that has been for us. I mean Selective is by far – they grew faster than any company that we've done business with, they're number one in our organization. We do seven digits of premium with them year in, year out and we look to keep doing that.

Male: And the question was directed at the agents, but the other thing I would say is, and we know this from firsthand experience, it's hard to build that kind of a business model. It takes a long time and it takes a commitment to it, because you're going to go through a lot of growing pains. And when we've certainly had our fair share of growing pains, but it is not easy and you've got to start with the right people.

And I think that's also a challenge to make sure you get the right people and keep them. So John, you want to jump in quickly _____one quick question...

John: Yeah, I was just going to say the other piece of that, we have the technology to support that field-based model and that's not something you can grow overnight. I mean our technology, you can do everything you need to do from your home office. You can do everything you need to do from a hotel room. It's set up, it's all internet based. Most companies don't have the capability to just roll into a field model their current infrastructure. And we've seen them try it and then have to tweak it a bit because the workflow is real clunky and that's something we have 20 years invested.

Male: We have time for one more question if we have any other questions. Okay. Well, I want to just thank the panel and with that, we're going to turn it back over to Greg. So thank you guys.

Greg: All right, so I think when you think of strategic competitive advantages, it's on, right? I mean it is on, so – telling me it's on in my pocket. There you go. Just a little technical problem in the back. So this is not our high tech. I want you to know this is the hotel's high tech. Just so we get clarity around – when you guys nail me later on and you can understand that this is not our part of it.

So let me just sit there and go – I'll try to get the day together for you. So when you think about strategic competitive advantages, I would hope that sitting here listening there's two things that come to mind. First is relationship. So when you think about other companies and they talk to you about the relationships that they have with agents, you can sit there and ask, hey, what's your agency survey scores look like? What's your premium volume in every one of your shops? Hey, do you sub-segment your agents into elite tiers and semi-elite tiers when you sit there and start to characterize how well you're doing with your franchise? And I'll tell you, we don't do that. We sit there and look at our agents and trying to increase our shelf space with our agents across our geo locations.

And the other part I think when you think of strategic competitive advantages that should jump off the page to you is execution. Because when you sit here and look at everything that we're doing, pricing, what John talked to you about in terms of the customer experience, that's a game-changer to us. We view customer experience and the investment, which is tremendous at the board level – I mean we're looking at a good size investment, holistically for that, it's no different than the discussions we had with our board members back in 2005 relative to when we needed to get into modeling, why we needed to get into data warehouses, why we needed to have seamless capability to deliver to our people. And because we made those investments is why we have the flexibility that we have today to be

able to provide people decision making actionable, decision making capability. And I think that hopefully resonates loudly to you.

But really, it is about, really, our success really is driven by the empowered people. You heard it on the underwriting side, you heard it on the claims side, you heard it on the safety management side, you heard it on the inside. Underwriting staff within the SBUs, everything we do we try to make sure we have empowered people operating through very deep relationships. We always focus on relationships holistically throughout the company, and then how do we make sure we supplement that with the best decision-making capability possible, whether it's on the underwriting side which we've talked about – third-generation model that we're into. This is not the market that you would want to be rolling out your first-generation modeling. I will tell you that. You are going to get killed. And then when you think about it, then the other part, what we're doing on – just like we invested in the underwriting side, now we're investing like Doug mentioned, on the claims side. So we've done a lot in fraud, we've done a lot in recovery, now we're moving a lot in triage. And those are ways to harvest more money out of your claim inventory to make sure you're maximizing every settlement possible in the marketplace. So those are the things that you need to leverage in this kind of market if you want to make – have a difference and be successful as a company.

So Dale took you through, I think, the waterfall chart and it gave you a sense of what it is we're putting on the table. And we're not putting anything big on the table because he talked to you, three years of 5 to 8% pricing. So think about that. The average on that 6.5, compound that for three years to 21% commercial lines rate increase. Like I said, I've been in the market for 30 years. A 21% rate increase in a hard market would be the first year maybe you would see. So we are not stepping back and saying, wow, we're expecting something very big to happen. If something happens larger than that, then we'll take advantage of it in the marketplace, but we're very measured in that. And as a result of that, that's why you see our loss trends staying at about 3. Now if loss trend goes higher because you see more in medical inflation, you see more cost shifting, you see more other things happening in home repair, well, then your rate level needs to go higher and as that inflationary aspect kicks into the market, then your investment income numbers are going to move up. So one number just doesn't move by itself, they all move kind of in your own different directions. You just need to understand how they move and how you take advantage of them in the marketplace.

I think when you look through every element of this, that you had a really deep dive into the different things that we're doing as an organization to get to that 12 ROE. We feel very confident that we're on the right track, our agents – it's the highest franchise I will tell you in the marketplace and we could have put in more

agents in front of you. You would have heard the very, very same story whether a New Jersey agent, Pennsylvania agent, wherever it's from, you would hear a very consistent story of what you heard here today.

So with that, we'd love to open it up to questions now, on management team that you have and this is your opportunity. So with that, we'll turn it up to questions. All right Jay, you're first up.

Q: That's fine. So two questions. One the bigger picture, one a bit more specific. I'll start with the bigger picture. It was an impressive day. It really was and you showed how you distinguished yourself from others from an operational standpoint. The agent panel was really phenomenal, as it always is. I go back to the original – one of the charts Dale showed where there was volatility, and earnings was less than others, but what it does show is that your combined ratio over the time really wasn't any better than the industry's at that point. And despite the fact that what we heard today was very impressive, you're not – you don't see, at least as of the last five years, more impressive underwriting results. And I'm wondering why you think that is.

The second one is on the claims side. I'm wondering more specifically, how do you get those three points off the combined ratio? What are the key drivers of that improvement with the changes you're making in the claims side?

Greg: All right, fine. Why don't we take the first part first. I will tell you that – first of all, we match our numbers up against regional companies. If you look at the five-year combined ratios of the time period you mentioned, we actually were the best performing regional relative to the companies in our benchmark group that we look at. Relative to the nationals, you're right. We are more mixed in there. I think part of it – part of the performance issue is the fact that we – it's been very difficult to deploy any kind of pricing thing in such a marketplace where we are clearly, as I like to say, the first year across the alligator pond. So we've been very much dialed into that, so I would think that relative to the regionals, which we have to compete in in the marketplace, for everything you heard of later today, we're the best performing. Relative to the nationals, there's more room to improve. Part of that I think is a mix of business issue relative to some of the higher margin opportunities that Dennis and John talked to you about. So our business was more – it's not generally characterized, but more in the middle Main Street stole business, that's a little more highly competed for in the marketplace. And I think also the fact that because we did such a heavy construction flow, I think Denny mentioned to you, we were 45% construction four or five years ago and now we're down to 34%. As that market went, it had a pretty big tail on to us as an organization overall. So I want to say that at the same time we were growing, as Alan mentioned to you, growing our personal lines book, and as we grew that book, it was a relatively new book to us and we had big new business

penalties. And the other thing I want to say from an actuarial standpoint, we seem to be much more disciplined in how we set our reserves, how we look at our new business plan and all of those things, I think, weigh into that. And I'll – Dale you...

Dale: Yeah, just maybe a little bit more specific on the numbers, is if you look at that timeframe, personal lines during that time as Greg indicated, we were growing that, so it was actually a drag on our overall combined while you look at some of the other competitors and it was favorable to their combined. The other thing if you just do a straight numeric on the contractors that Greg talked about, if you take our contractor's book, call it a 40% average during that timeframe and you move it to the 17% average that you see as the demographics, business demographics and adjust the combined for that, you see that we're spot on where Traveler's has been performing. So those are the two big drivers in terms of a pure numeric standpoint.

Greg: And then I'll try to handle the claims question. I can tell you that internally there's a set of very specific initiatives that we actually measure the actual dollar savings impact. So if you were to look at that three points of savings, you could split that between things that are clearly measured and things that are just going to come through in improved outcomes over time. You're going to see them materialize through quicker cycle times, higher disposal rates on the litigation side. But in terms of specifics, there are things that we measure like the introduction of fraud recovery models. You could actually see the change going forward in your identification of fraud, your ability to recover, so that's one area. You could – we do some things in terms of – Doug talked to you about estimating tools and being able to make sure that you are pricing up your contents losses appropriately. So we've got some tools in place where you could actually see a change over time, simply measure and attribute to that particular instance. You could look at – back to the cycle time issue, a lot of things Doug talked about in terms of specialization. So what we've done in the worker's comp arena, getting fast-track claims into one person's hands versus lost time claims into somebody's else's who are very, very well positioned and trained to handle those cases more effectively. Those are the things that are on the more intangible side.

So I could tell you that we – there is, in fact, a list of probably 8 to 10 specific initiatives that targets are established for that you're measuring against, very specific, very tangible and then there's other things that you're going to see through improved outcomes that you have related measures, sort of leading indicators that say if these things move directionally – I mentioned cycle time, I mentioned disposal rates – if they move directionally, that's a pretty good indication for us that we're getting those less measurable or attributable savings along the way. But those items are, in fact, tracked pretty closely and I think you would have seen it in the proxy, in particular, on the cash incentive program that

employees are measured on, you could actually see some of those tangible numbers track and feeding the bonus pool.

Male: Greg in the back.

Q: You mentioned and talked about your predictive modeling a number of times during your presentation this afternoon, and I was just curious from a big picture perspective if you could give us a sense on how your predictive modeling capabilities differentiate between unusual or large loss anomalies versus something that might be more systemic in a particular account. And then a very specific question. I think in one of the slides I saw a 95 combined ratio target for 2014. Just wondering if you can comment on that as well.

Greg: Yeah. So you get the first question first on the modeling side. So it's a great question. Without going into too much detail on the proprietary aspects of the model, I could tell you that the variables that attribute to individual loss experience, whether frequency or loss ratios, you are, in fact, using a capping approach to make sure that an individual loss, either on the loss frequency side or the loss ratio side is not unduly influencing the outcome on that particular account, relative to loss experience. So you want to make sure you're seeing more of a pattern than an individual loss that may be explainable, make one account – turn a good account into a bad account. Another important thing to reference there, and you heard a couple of the agents on the panel talk about this as well, is I think we've gone through a learning experience as we introduced the model output to our underwriters, so also recognize that there's a lot more to underwriting commercial accounts than just looking at a predictive model number. So if you think about, loss – the thing with the loss experience issue. You may have an account that has poor loss experience and as a result of it, may in fact, score poorly, but now if you interject individual underwriting judgment, they're going to know things about that account that they may be able to say listen, this is what it was that caused these losses. Okay, they had unprotected equipment, whatever it may have been, they can address, therefore on a go-forward basis, we feel comfortable with this particular account, maybe not looking on a go-forward basis like it may have looked historically. So I would say you've got loss capping to mitigate that and then you've also got the introduction of other traditional underwriting variables beyond insurance scoring to make that determination as to the quality of the account.

Male: As far as your other question, I'd first like to refer you to Jennifer's first line regarding forward-looking statements as a reference, and then number two, yes, you're right, there is a slide in there that indicates clearly that our expectation is to get to a 95 combined ratio by 2014, which will generate a 12% ROE. Obviously it's predicated on a number of things, the largest being 5 to 8% average price

increases over a three-year timeframe. But that is definitely what we believe our current plans will lead to.

Q: Thanks. So maybe can you talk a little bit about the personal lines business and I think there was a slide that showed your guys target over the next five years about 20% of your business being of personal lines. Is that going to be driven by geographic expansion? Then maybe just a comment on the average, I guess, seasonality or season of the book if you move into new territories, how you plan to manage those too.

Greg: So great question. With regard to geographic expansion, there's another state or two within the remaining nine in our footprint that probably make sense for us to consider getting into in personal lines. So I would say that the bulk of our growth over the next few years will come from existing personal lines states. And as Alan mentioned in his presentation, we're also adding some agency storefronts where it geographically makes sense for us, so you'll get some benefit, not just by better performance in your existing agency plan, but by adding some new agency storefronts where you may have geographic gaps within that particular footprint.

With regard to the age of the book, and I don't want to throw specific numbers out there, but suffice it to say that with the opening of new states – and we opened four states in roughly the 2008 timeframe, we got into Wisconsin, Iowa and Minnesota and Rhode Island. Wisconsin was kind of a reopen. But those are the four of the newer states. So that business has got zero age to it. And if you were to look at our overall book, it's a New Jersey versus non- New Jersey story. New Jersey average age is clearly in the double-digit range and non-New Jersey average age is clearly in the very low single-digit age because you've got a lot of new states feeding that production. So there's a new business penalty associated with auto insurance no matter how good your models are, that you're just going to incur, and as the book ages, which it will over the next several years, that in and of itself, in addition to what we're doing on the underwriting side and what we're doing in pricing above loss costs, will together contribute to the improvement in the auto book that we expect to see. So not terribly specific in terms of the average age, but you get a sense as to the difference between New Jersey and non-New Jersey.

Male: And I would just add to that in terms of when you think about why retention is so critical, to give you a sense of that, new business penalty in commercial lines runs about 11 points and – this is commercial lines. In personal lines it's like 19. So just to give you a framing of the difference. So when you think about how important it is to balance rate and retention and you think about it, so if you have a retention of let's say even 80 or 81, 82, 83, in that neighborhood, you've got to write 20% of your business new just to stay even. Theoretically thinking about it in that holistic view. So it's very important that if you're going to improve your

profitability, that an integral part of your profit improvement plan is your retention strategy. And when you think about our retention strategy, it was woven through today but I want to restate it 'til it's clear, that we're balancing that one risk at a time. Our inside underwriters have enormous amounts of information and it's not just modeling. There are probably 16 or 17 or 18 different variables that come in to play when they figure out where they are in their pricing. And so that's very important. But as important that is, is our service, claims service, safety management services, the services that we lay on top of that account so we don't lose that on that front. And then think about it overall from a customer experience standpoint, we want to improve the customer experience to have a best in class, so we improve our retention and one of the things even too, tying it back to what John mentioned on the claim improvements, when you think about it, if you've got better access to getting report notifications on claims faster, that allows you to start to triage process quicker. That allows you to keep the rental days down. That allows you to do so many other things, get that – maybe a claimant in network faster. And particularly if it's a state they have more trouble directing care in, but if you get that claim instantly and get it in network, that's a huge opportunity for saving in network aspect. So all of those things really tie together when you start thinking about the bigger picture of profitability and what it means. So it's not just price and it's all interwoven to make the fundamental improvements that we need to do.

Greg: But we are comfortable with the path we're on for personal lines. We look at that a number of different ways. You heard multiple references to metrics. We measure the incoming business on both auto and home by every underwriting variable that we have to make sure you're looking at hit ratios, in particular, because if you have a gap in your rating plan, you're going to see it come through there first. You're going to see high hit ratios or excessively high hit ratios on based on a certain characteristic. So that's why we feel comfortable that the model is working correctly on the personal lines side in terms of identifying quality risk and also establishing appropriate pricing level for that particular risk and then on the homeowners side you heard, that really is just and overall rate story for the entire industry, in addition to the quality in terms of the mix of business that we have coming through there.

Male: Other questions?

Q: On your E&S business, can you just remind us what your expectations are for premium relative to the \$120 million that was prior to those two companies? What your expectations are for combined ratio? Oh and then, just lastly, you mentioned your agents I think is \$300 million or \$400 million.

Male: \$3 to \$400 million.

- Q: How much of that business is in your – how much do you expect to write of that agency business this year and going forward?
- Male: The combined books are \$120 million, as you indicated. Our expectation is in the first year of operation it will be somewhat less than that, not completely the \$120 because there's a number of things that we wanted to tweak a few things with regards to some programs maybe that we didn't like as well. But still substantially similar to that kind of a dollar amount. The expectations you saw in one of Greg's slides were – squeaking, what do you want me to do? This way, into the light, this way? Can you hear me now? In one of Greg's slides it indicated that in a five-year timeframe that would represent 10 to 15% of our overall production. We haven't provided any guidance with regards to combined ratios, other than to say that historically the contract planning authority business performs 6 to 10 points better than standard commercial lines and it is our expectation to get that to -- the performance to that range over time.
- Greg: And in terms of the growth, there's three real avenues of growth for that particular business over the next couple years. The first one is going to be as the primary, the standard markets are so firm that you're going to start to see business moving back into the E&S market. That's clearly going to drive growth. The second opportunity – in addition to the pricing on that, the other business. But the second opportunity is, you've got about 90 wholesale relationships across 50 states for the two companies, so there's an opportunity for them to add wholesalers and then a third avenue is the one you cited which is taking advantage of that, what we would estimate to be \$3 to \$400 million of contract binding authority that our agents control. Now for us to sit here and put a number on it would be very challenging because the first thing we need to do is make sure that it makes sense for our retailers to connect with the wholesalers that we have, make sure there's a geographic match there and a relationship match. So we're going to learn a lot more about that in the next several months. And then other piece of it is, once those relationships are established you've got to have an appetite match. So for us to sit here and say it's going to be 25 or 50% of that \$3 to \$400 million would be a little bit of a shot in the dark, but I can tell you, we're going to get a better understanding of that over the next several quarters.
- Q: Just one thought. What are you doing specifically to make sure that the underwriting margins are consistent, in that business are consistent with the overall...
- Greg: Yeah, I would say a couple things here. First is making sure we have the right people with the knowledge base to put the underwriting and pricing templates out there. I think we have that and I think we're – we've tested that and feel very good about it. I think the second piece is, a lot of the sophistication that we talked about from a data warehousing perspective, from a price monetary perspective are

things that weren't resonated with either one of those operations. So our ability to bring that sort of backroom support for them to really understand what's driving their performance, what do they need to do to improve their performance, our ability to deliver that to them I think is going to allow them to really understand the business. They're going to have to deal with some top-line volatility as they stick to their guns through those market cycles, but I think to this point, both of those operations lack a lot of that sophistication that we could bring to them that I think will absolutely help them manage their business going forward.

The only other point I'd like to make and because it was touched on before is that we try to pick the lowest risk way to enter this business, which were two renewal rights like deals. That's a positive from a sense that you don't have under exposure, you want to cancel a program, you could do it like that. You don't have any reserve risk relative to that. But it is a more expensive way given the new deferred GAAP accounting rules in terms of expenses because if you think about it this way, we have a fully capable operation to handle combined \$120 million of business, but yes, so you've got that entire runrate coming through against a very small amount of earned premium. So during this transition year, you're going to see that impact the numbers and as we get into a better steady state, it will normalize it, because unlike statutory accounting where you're amortizing the expenses over the written on a GAAP basis, you can only defer truly variable costs for the most part, which means everything else gets expensed. So we've got a fully functional operation, but only earning premium at a runrate that will earn, that will build up over time. So I just want to make sure you guys understand it. The benefits are lower risk, the detriments are it comes with a bigger price tag up front in terms of your overall expense ratio relative to that operation. So that's just a give-and-take relative to what you need to do.

Q: And that's in your guidance...

Greg: Yes. The question is, is that in our guidance for the year, what we set there -- we gave guidance at the beginning of the year, yes it was. Any other questions then?

All right, well first I want to say thank you for your investing the time to learn about a little deeper knowledge about Selective. I think it gave you great exposure into insights, what happens at the agency level. I think it also provided you an opportunity to see what makes us truly unique. And so when you hear the words franchise, agency relationships, nimbleness, you will truly equate that with Selective in terms of the best franchise in the marketplace. So thank you very much.

Male: Thank you.

Male: And we do have cocktails right across the hallway for those of you who are thirsty at this point in time. So it's straight across. And feel free to ask anybody any questions there too. I've given them instructions not to get too liquored up before you start asking them though.

Male: Thanks guys.

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