



# 2020 Investor Presentation

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# SAFE HARBOR STATEMENT

In this presentation, we make certain statements and reference other information that are “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995 (“PSLRA”). The PSLRA provides a safe harbor under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, for forward-looking statements that relate to our intentions, beliefs, projections, estimations, or forecasts of future events or our future financial performance. Forward-looking statements involve known and unknown risks, uncertainties, and other factors that may result in materially differing actual results. We can give no assurance that our expectations expressed in forward-looking statements will prove to be correct.

Factors that could cause our actual results to differ materially from those projected, forecasted, or estimated by us in forward-looking statements are discussed in further detail in Selective’s public filings with the United States Securities and Exchange Commission. We undertake no obligation to publicly update or revise any forward-looking statements – whether as a result of new information, future events or otherwise – other than as the federal securities laws may require.

This presentation also includes certain non-GAAP financial measures within the meaning of Regulation G, including “non-GAAP operating earnings per share,” “non-GAAP operating income,” and “non-GAAP operating return on equity.” Definitions of these non-GAAP measures and a reconciliation to the most comparable GAAP figures pursuant to Regulation G are available in our Annual Report on Form 10-K and our Supplemental Investor Package, which can be found on our website <[www.selective.com](http://www.selective.com)> under “Investors/Reports, Earnings and Presentations.” We believe investors and other interested persons find these measurements beneficial and useful. We have consistently provided these financial measurements in previous investor communications so they have a consistent basis for comparing our results between quarters and with our industry competitors. These non-GAAP measures, however, may not be comparable to similarly titled measures used outside of the insurance industry. Investors are cautioned not to place undue reliance on these non-GAAP measures in assessing our overall financial performance.

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## OVERVIEW



# A TRACK RECORD OF SUPERIOR EXECUTION

STRONG UNDERWRITING PERFORMANCE WITH SIX CONSECUTIVE YEARS OF DOUBLE-DIGIT ROES

**2019 Non-GAAP Operating ROE OF  
13.3%\***

27

State Footprint

\$4.2B

Market Cap  
(as of 2/11/2020)

90+

Years of Financial  
Strength and  
Superior Execution

\$2.7B

2019 NPW  
(up 7% Y/Y)

93.7%

2019 GAAP  
Combined Ratio

\* Refer to "Safe Harbor Statement" on page 2 of this presentation for further detail regarding certain non-GAAP financial measures.

# OUR SUSTAINABLE COMPETITIVE ADVANTAGES

## Franchise value distribution model with best-in-class partners

- Enables effective management of pricing and retention
- Presents significant opportunity for profitable growth
- Agent overall satisfaction rating of 8.8/10

## Unique field model enabled by sophisticated tools and technology

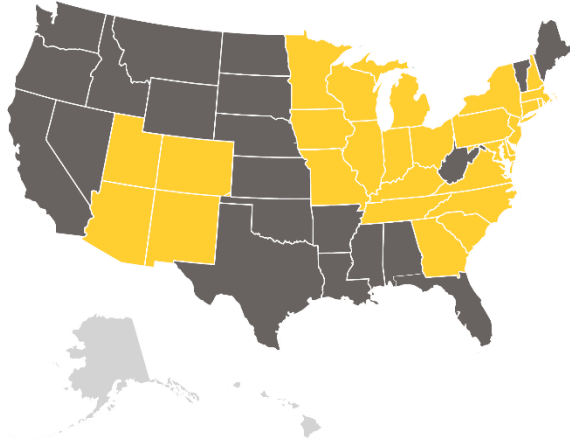
- Locally-based underwriting, claims, and safety management specialists
- Agile capability and excellent data analytics
- Sophisticated pricing and underwriting tools

## Superior customer experience delivered by best-in-class employees

- Total attention to customer experience ("CX")
- Developing holistic solution for 24-hour omni-channel shared experience
- Increased customer engagement
- Value-added services

# SUPER REGIONAL COMPANY WITH NATIONAL CAPABILITIES

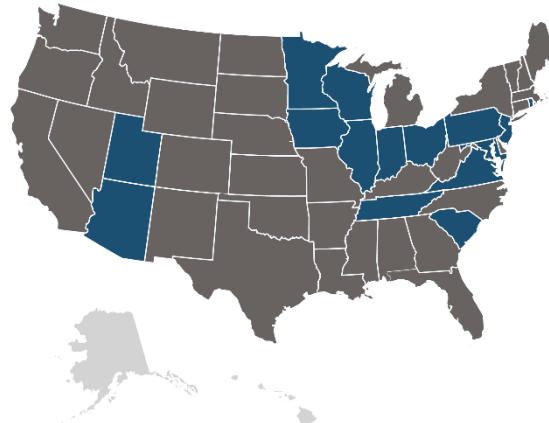
Standard Commercial  
(80% of NPW)



**27**  
States & D.C.

~1,350  
distribution partners

Standard Personal  
(11% of NPW)



**15**  
States

~770  
distribution partners

E&S  
(9% of NPW)



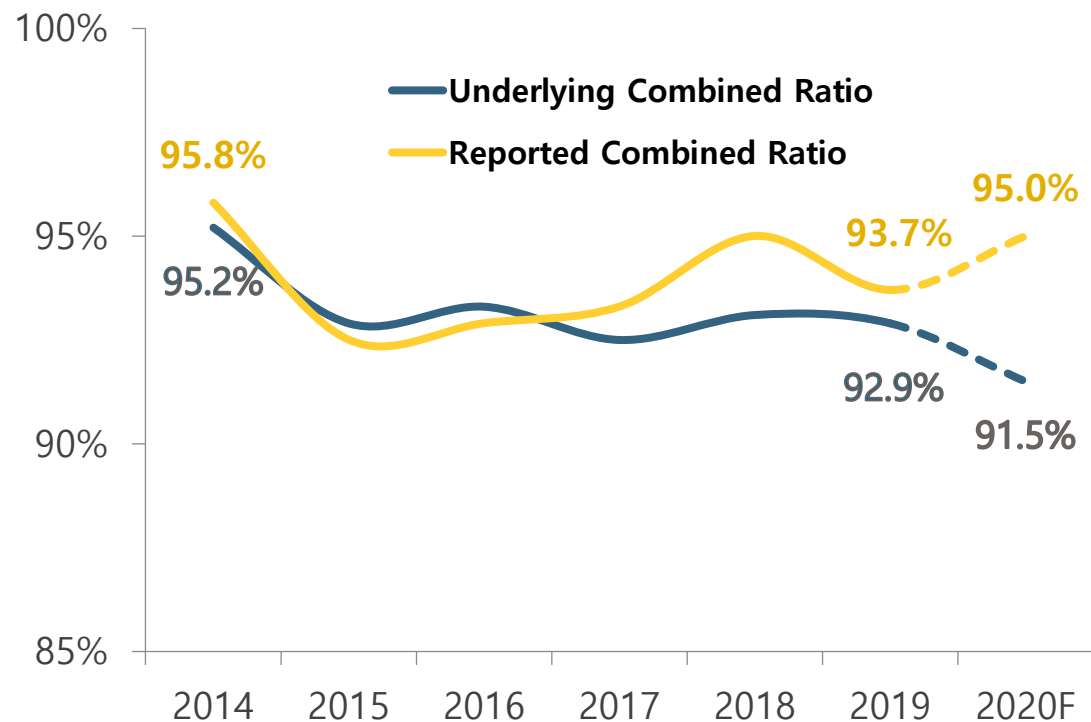
**50**  
States & D.C.

~90 wholesale  
distribution partners



# EXCELLENT OPERATING PERFORMANCE

## Historical GAAP Combined Ratios



Underlying GAAP combined ratio excludes catastrophe losses and prior year casualty reserve development

\* Refer to "Safe Harbor Statement" on page 2 of this presentation for further detail regarding certain non-GAAP financial measures.

## FULL YEAR 2019 HIGHLIGHTS:

- Consolidated combined ratio of 93.7%
- After-tax net investment income up 13%
- Non-GAAP operating ROE\* of 13.3%

## 2020 FORECAST:

- Underlying combined ratio of 91.5% (assuming no prior year casualty reserve development)
- Catastrophe losses of 3.5%
- \$185 million of after-tax net investment income
- 19.5% tax rate
- 60.5 million shares



# SUMMARY OF OUR OPERATIONS

## Commercial Lines (80% of NPW)

- Focused on disciplined growth
- Strong calendar year profitability; Commercial Auto remains an area of focus
- Drivers of profitability include strong new business growth and retention, and accelerating renewal pure price increases

## Personal Lines (11% of NPW)

- Targeting a 90% homeowners combined ratio in a normal CAT year (~14 points)
- Competitive market conditions hurting personal auto growth
- Fifth largest "Write Your Own" National Flood Insurance Program participant; partial hedge for catastrophe losses

## Excess & Surplus (9% of NPW)

- Focus on achieving target combined ratio; top-line will depend on market conditions
- "E&S light" product mix
- Margin improvement through targeted price increases, exiting challenged segments, and claim outcome improvements



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## OUR STRATEGIC INITIATIVES

# OUR MAJOR STRATEGIC INITIATIVES



## PRICE ALIGNMENT WITH EXPECTED LOSS TREND

Seek to achieve price increases in line with or above expected loss trends



## LEVERAGE SOPHISTICATED TOOLS AND TECHNOLOGY

Leverage sophisticated underwriting tools to drive business mix improvements



## CONTINUED PROFITABLE GROWTH

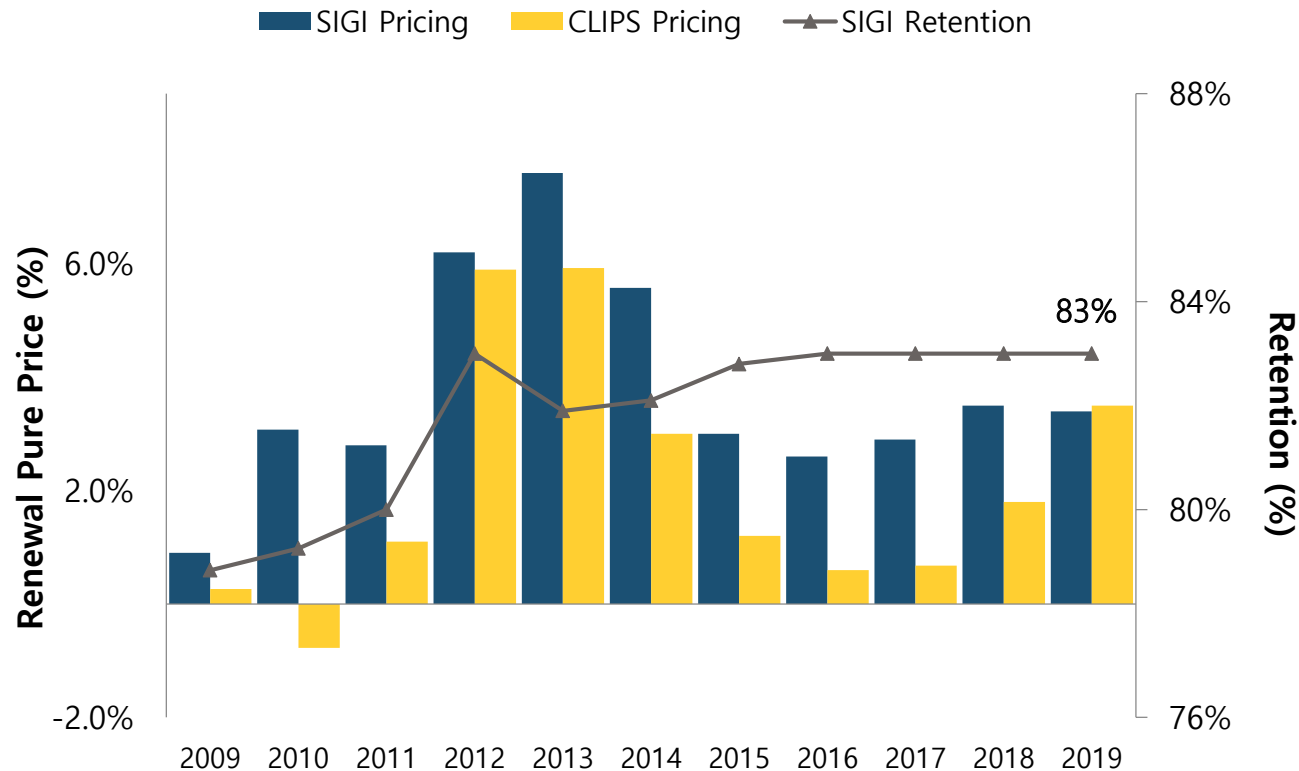
Expanding "share of wallet" and new agent appointments; geo-expansion



## EXCELLENT CUSTOMER SERVICE

Continue to deliver superior omni-channel customer experience

# CONSISTENTLY ACHIEVING PRICE INCREASES IN ALIGNMENT WITH LOSS TREND



CLIPS: Willis Towers Watson Commercial Lines Insurance Pricing Survey, 2019 pricing as of 9/30/19

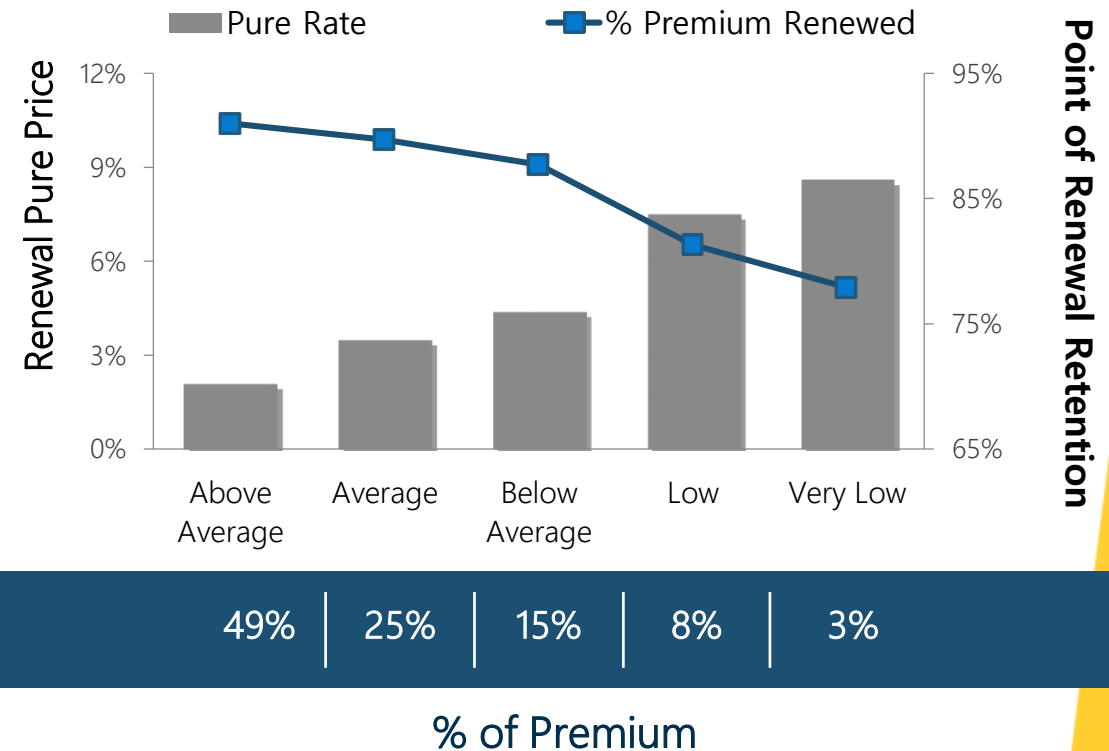
- Commercial Lines renewal pure price increases have met or exceeded CLIPS index since 2009, and are tracking in line with expected loss trends
- For the past five years, Commercial Lines cumulative renewal pure price was approximately 16.5% vs. CLIPS pricing of 8%
- Ability to get appropriate price enabled by:
  - Strong distribution partner relationships
  - Sophisticated tools and actionable data
  - Culture of underwriting discipline

# A GRANULAR APPROACH TO PRICING AND UNDERWRITING

- Portfolio management approach yields higher retention and rate
- Account-specific pricing, including:
  - Predictive modeling
  - Relative loss frequency and severity
  - Pricing deviation
  - Hazard and segment consideration

**Strong focus on developing tools and technologies that enable more efficient decision making**

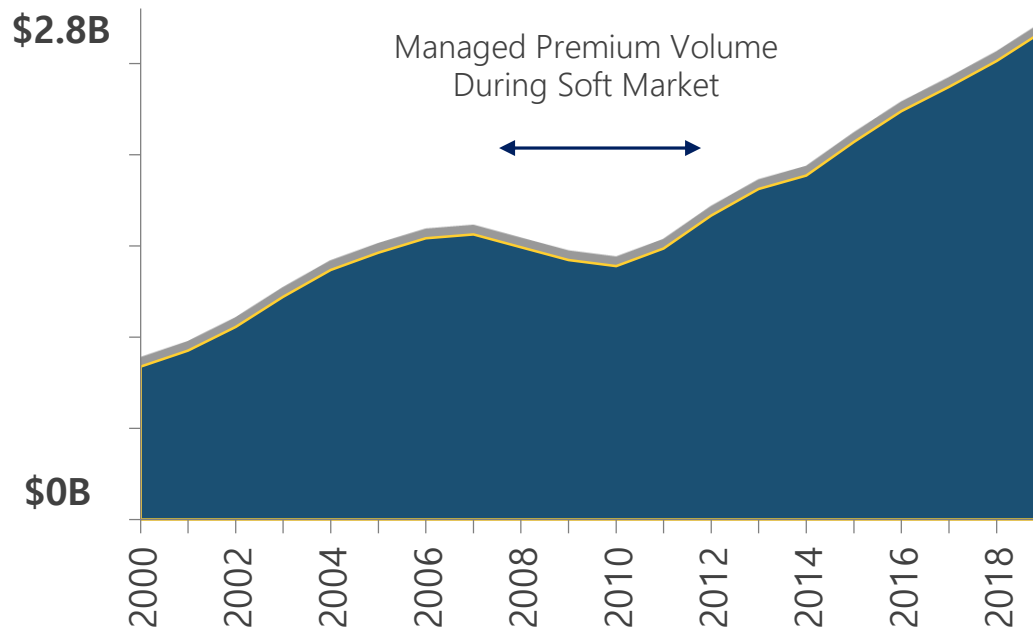
## Commercial Lines Pricing by Retention Group



As of December 31, 2019

# TARGETING PROFITABLE GROWTH OVER TIME

## Historical Net Premiums Written



## COMMERCIAL LINES GROWTH DRIVERS:

- Target of growing “share of wallet” to 12% with existing distribution partners
- Target of appointments to represent 25% share in existing markets
- Geo-expansion (5 new states)
- New products and M&A

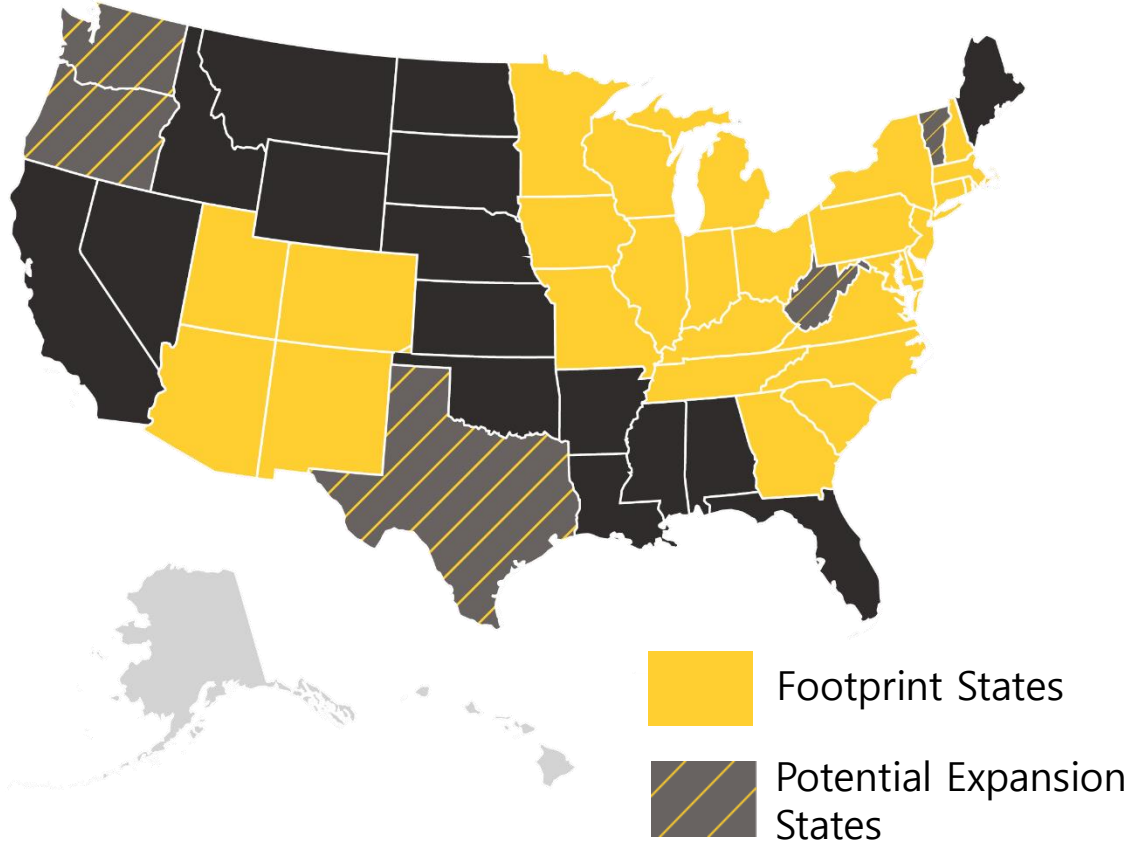
LOWER  
RISK



HIGHER  
RISK

**Additional NPW opportunity > \$2.7B by achieving a 3% commercial lines market share in existing footprint**

# GREENFIELD GEO-EXPANSION ENHANCES GROWTH OPPORTUNITIES

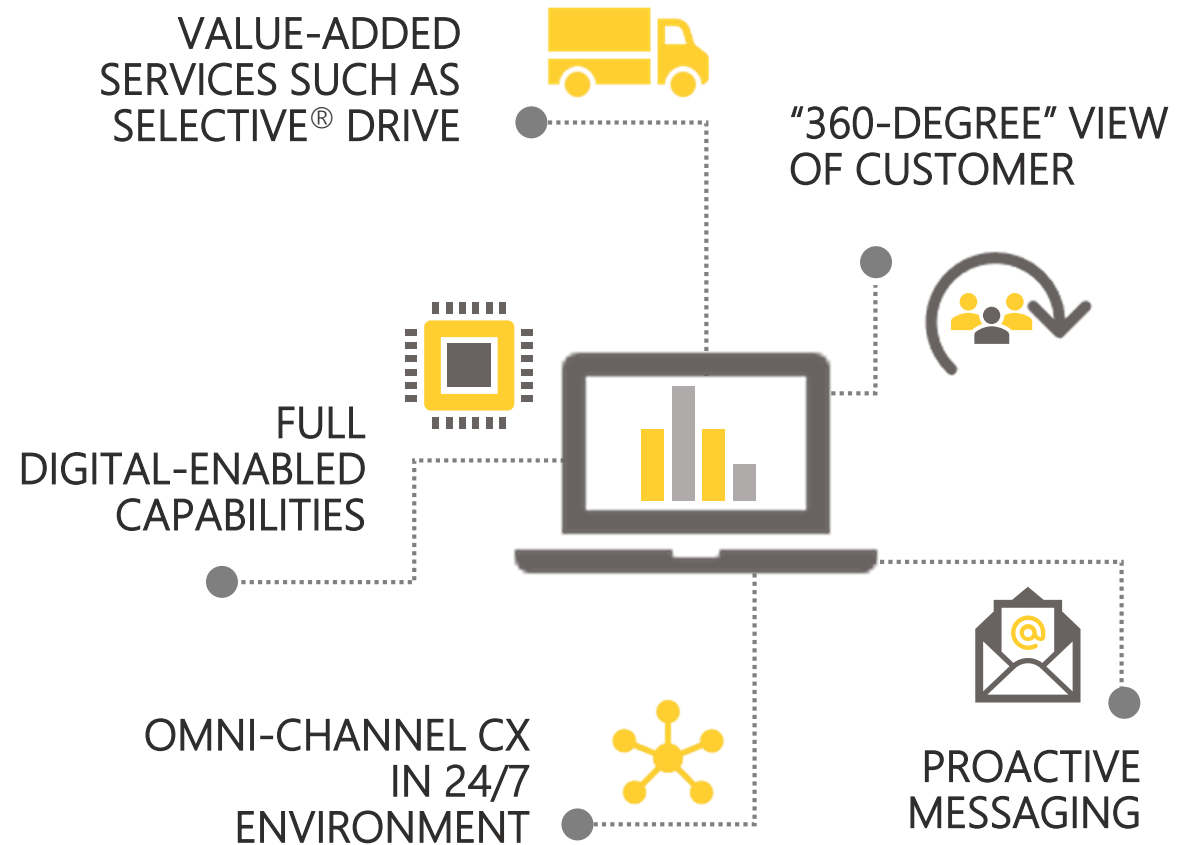


- Diversification and spread of risk
  - Targeting ~30 fully operational states
  - Remainder to support multi-state accounts
- Established new Southwest regional hub by entering AZ, CO, NM, and UT for commercial lines in 2017 and 2018 and AZ and CO for personal lines in 2018
- Initial growth and profitability has been better than expectations



# DELIVER A SUPERIOR OMNI-CHANNEL EXPERIENCE

- Changing expectations from customers, and potential disruptive threats from traditional and non-traditional competitors
- Partnering with agents to provide a seamless customer experience
- Identifying value-added services to increase new business hit ratios and retention rates:
  - Customized proactive messaging for product recall, notice of loss, or policy changes
  - Full digital capabilities
  - Additional service offerings such as Selective® Drive and Security Mentor®



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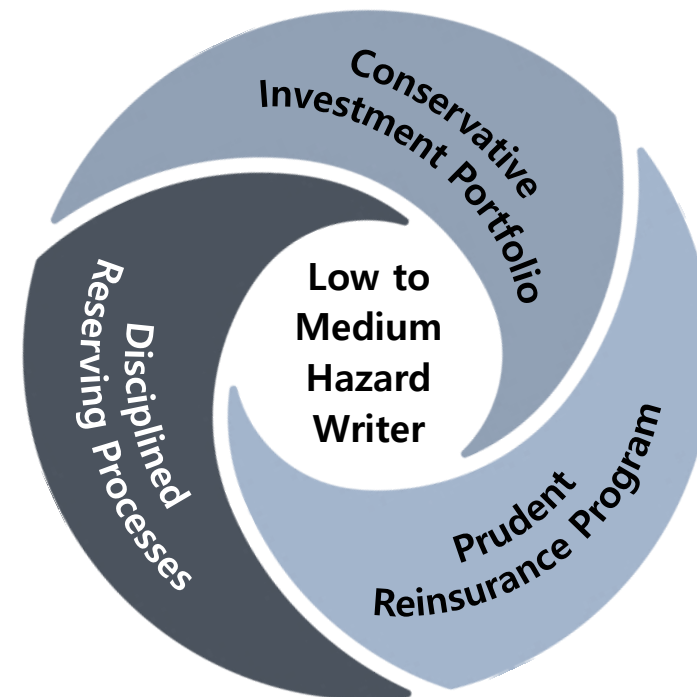
## FINANCIAL OVERVIEW



# ● LOWER RISK PROFILE AND STRONG FINANCIAL STRENGTH

- Strong balance sheet underpinned by a conservative approach to:
  - Managing the investment portfolio
  - Purchasing reinsurance protection
  - Loss reserving
- Conservative business and balance sheet profile allows for higher operating leverage
  - Each full point on combined ratio = ~1 point of ROE
  - Each full point of pre-tax investment yield = ~2.5 points of ROE

## A LOWER RISK PROFILE



# A WRITER OF PREDOMINANTLY LOW- TO MEDIUM- HAZARD RISKS

- Manage volatility of underwriting results, in part through maintaining a smaller limit profile
- Low account sizes (premium per policyholder) averaging:
  - \$12K for Standard Commercial
  - \$2K for Standard Personal
  - \$3K for E&S
- Low reinsurance attachment points of \$2M per event for property and casualty risks

Percent of Policies with TIV or Limits of \$1M or Less	Property	Casualty
Standard Commercial Lines	79%	87%*
Standard Personal Lines	85%	98%
E&S Lines	97%	98%

Note:

\* Excludes workers compensation policies, which do not have statutory policy limits

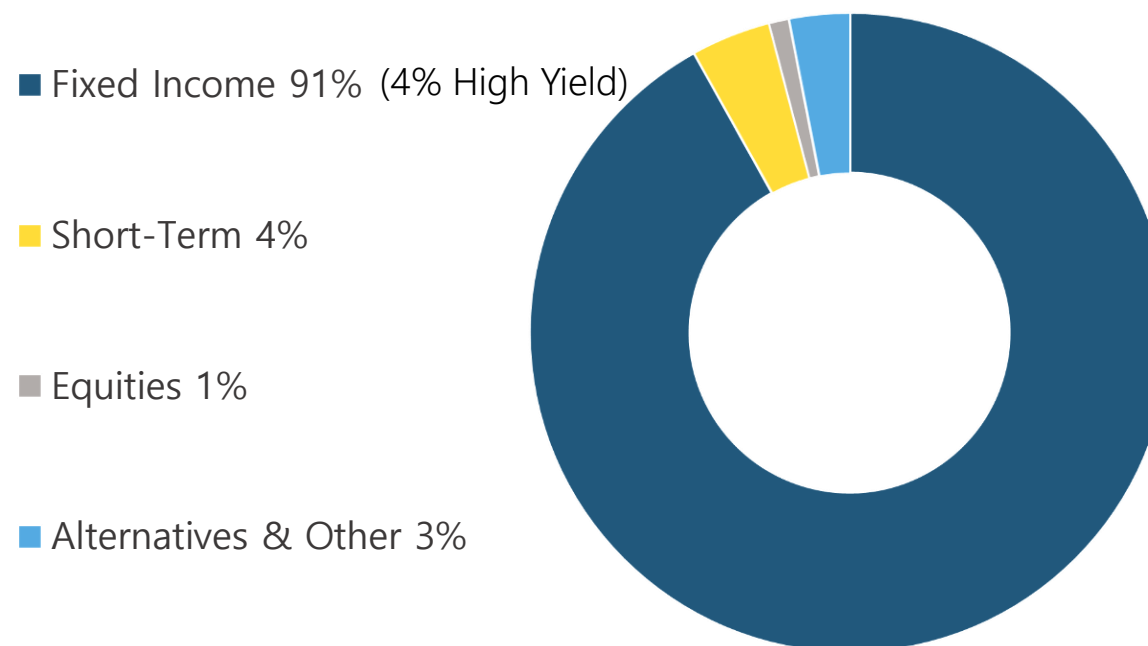
TIV refers to total insured value

# CONSERVATIVE INVESTMENT PORTFOLIO

Investment Portfolio at 12/31/19

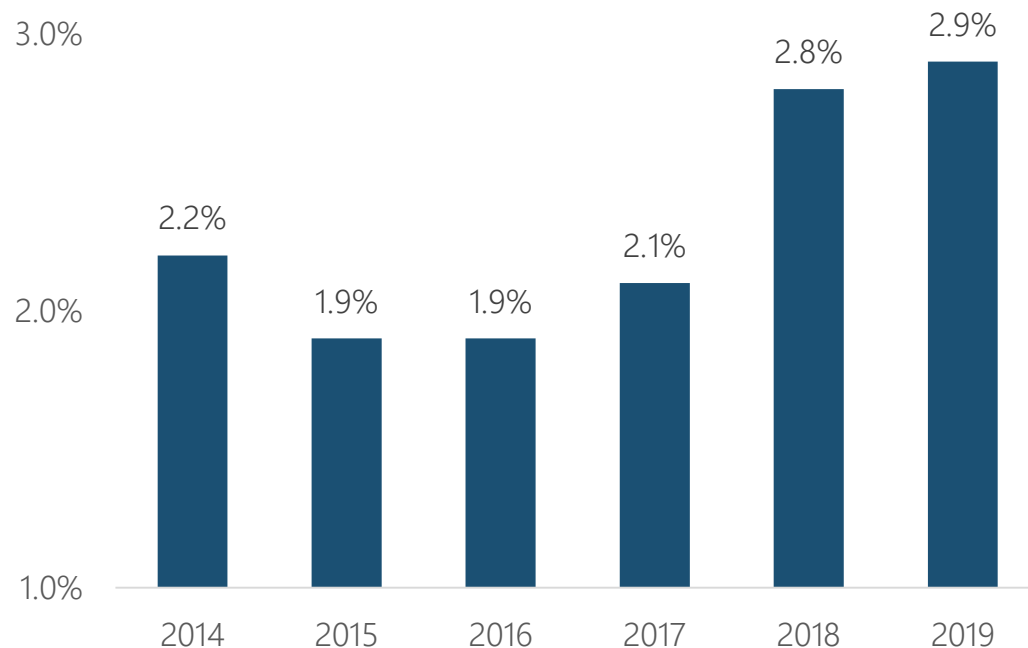
- Core fixed income and short-term investments comprise 95% of the investment portfolio:
  - "AA-" average credit quality
  - Effective duration of 3.6 years
- Risk asset allocation (high yield, public equity, and alternatives) at ~8% of invested assets, remains below our long-term target
- Ongoing work to further diversify our alternative investments portfolio by strategy and vintage

\$6.7B of Investments



# ACTIVE PORTFOLIO MANAGEMENT DRIVES INVESTMENT RESULTS

## Historical After-Tax Fixed Income Portfolio Yields



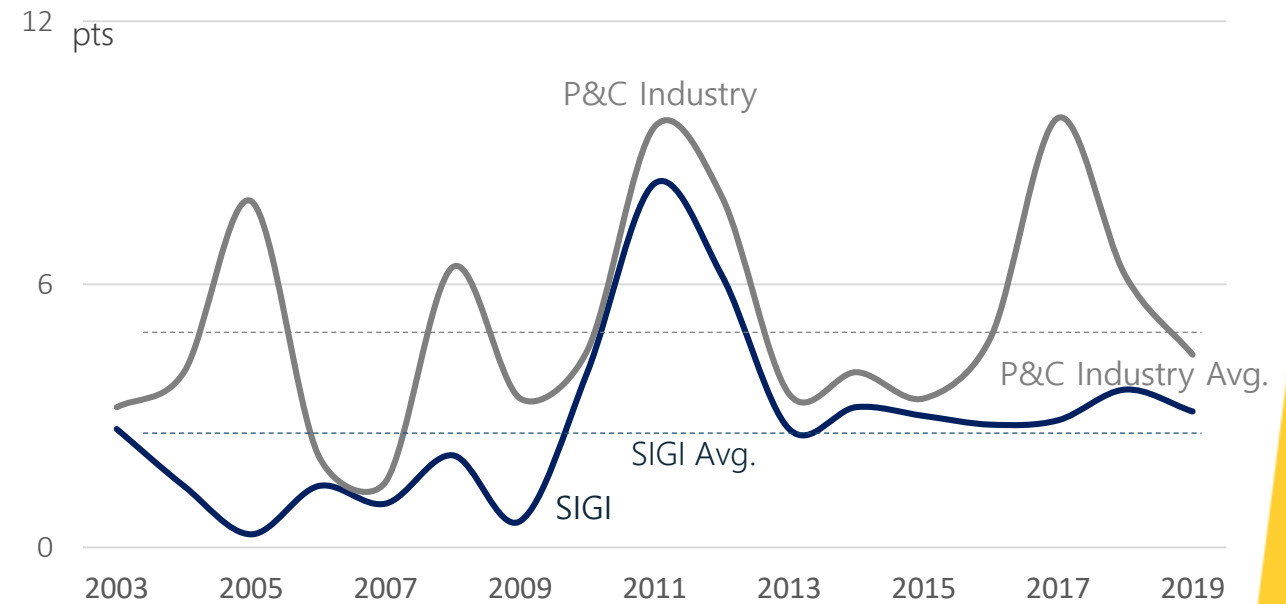
- Strong investment performance in 2019 driven by:
  - Active portfolio management
  - Excellent operating cash flow (18% of NPW in 2019)
  - Strong alternative asset returns
  - Higher average invested assets
- Maintained fixed income and short-term portfolio duration of 3.6 years and AA- average credit rating
- Forecasting 2% growth in after-tax net investment income, to \$185M in 2020



# CATASTROPHE LOSS IMPACT BELOW INDUSTRY AVERAGE

- Catastrophe loss impact over the past 17 years has averaged:
  - 5.1 percentage points for the P&C industry
  - 2.9 percentage points for Selective
- Catastrophe loss mitigation initiatives include:
  - Strict guidelines around coastal properties
  - Focus on geographic diversification and growth that minimizes peak catastrophe aggregations
  - Conservative reinsurance program

Impact of Catastrophe Losses on Combined Ratio

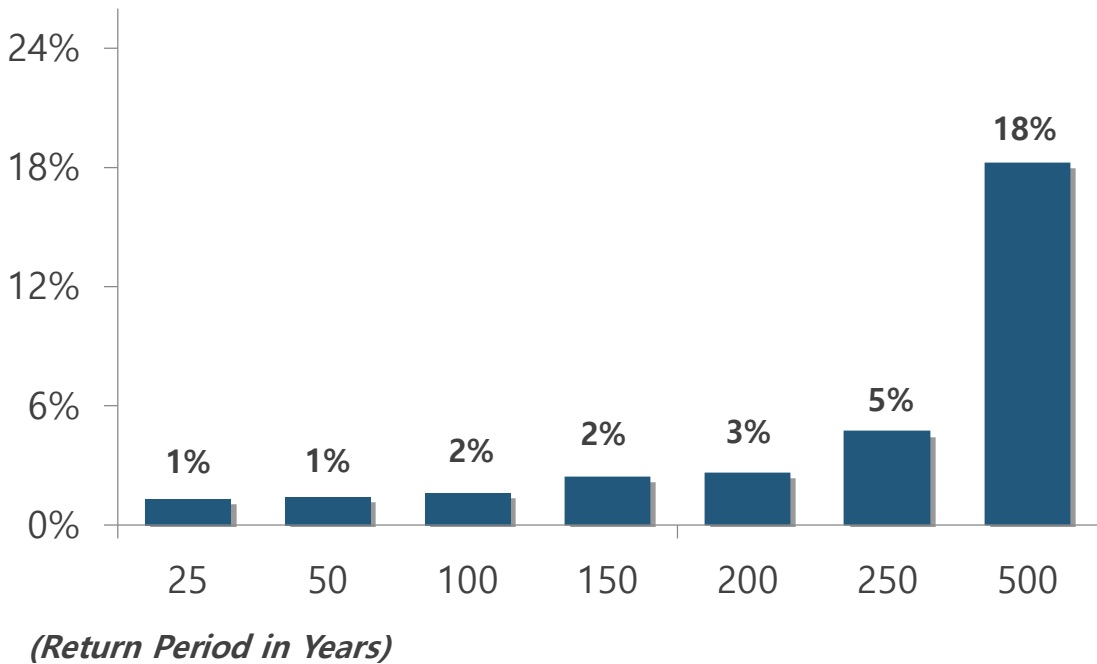


Note: Catastrophe impact for P&C industry based on A.M. Best estimates; 2019 estimate based on 9M 2019 actuals



# CONSERVATIVE REINSURANCE PROGRAM

Net Single-Event Hurricane Loss\* as a % of Equity



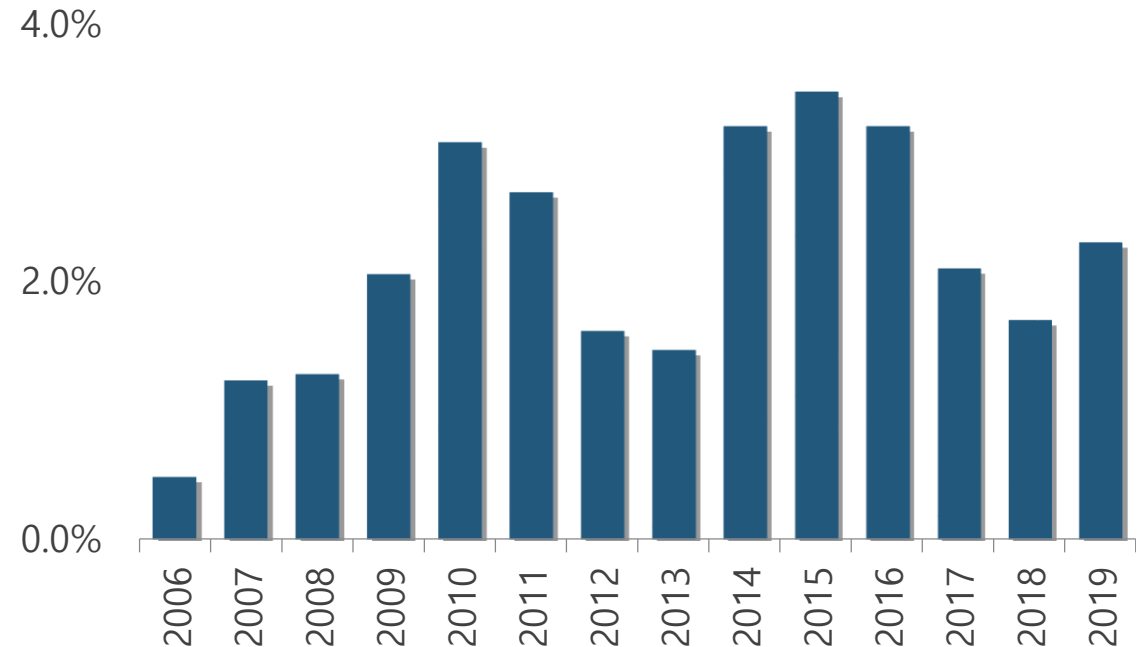
- 2020 property catastrophe treaty structure:
  - Coverage of \$735M in excess of \$40M retention
  - \$242M in collateralized limit, primarily in the top layer of the program
  - Additional earnings volatility protection from our non-footprint \$35M in excess of \$5M layer
- Property XOL treaty covers losses up to \$58M in excess of \$2M retention
- Casualty XOL treaty covers losses up to \$88M in excess of \$2M retention

\* Single event hurricane losses are net of reinsurance, after tax, and reinstatement premiums as of 1/1/20. GAAP equity as of 12/31/19.

# STRONG RESERVING TRACK RECORD

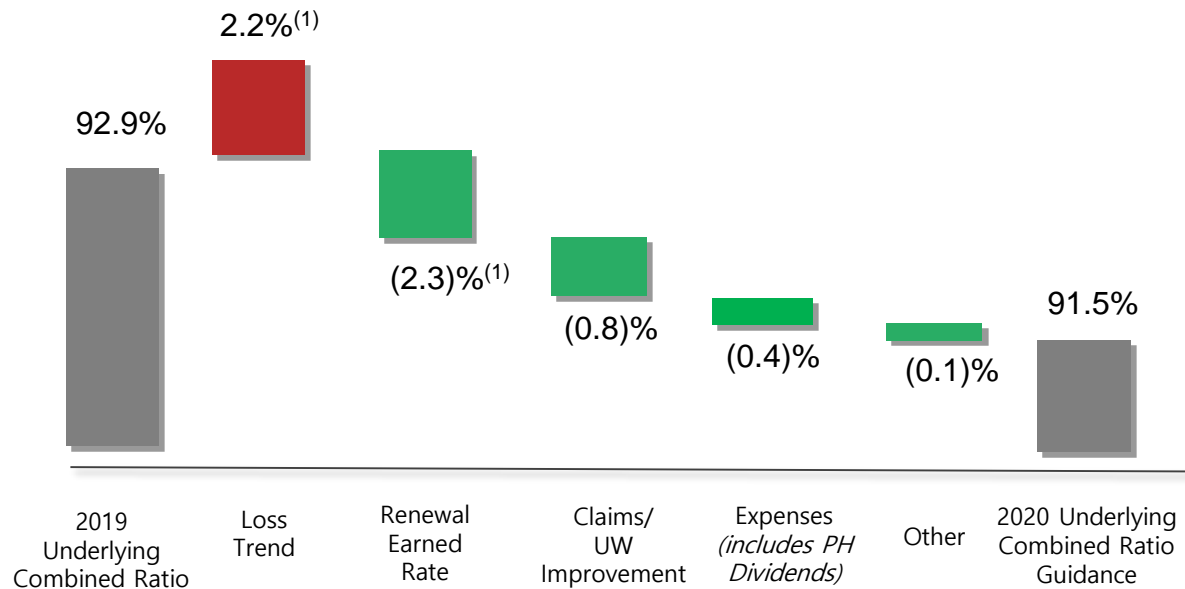
- Disciplined reserving practices:
  - Quarterly actuarial reserve reviews
  - Semi-annual independent review
  - Independent year-end opinion
- Favorable reserve development in Workers Compensation was partially offset by modest strengthening in Commercial Auto, Personal Auto, and E&S lines during 2019

Impact of Casualty Reserve Development on our Combined Ratio



# MARGIN IMPROVEMENT EXPECTED IN 2020

## Reconciliation of 2019 Underlying GAAP Combined Ratio to 2020



- Targeting price increases in line with or in excess of expected loss trend
- Assumes no prior year casualty reserve development
- Business mix improvement through risk segmentation
- Claims and underwriting improvement
- Impact of catastrophe losses on combined ratio estimated to be 3.5%
- Operational efficiency driving down expense ratio

(1) Based on a gross loss trend of 3.8% and gross earned rate of 3.7%



# STRONG CAPITAL AND LIQUIDITY POSITION, GREATER FOCUS ON EXPENSES

## CAPITAL AND LIQUIDITY PLAN

- Strong position with 20.1% debt-to-capital ratio
- NPW to surplus ratio of ~1.4x is at the low end of historical range
- Growing the business currently provides the most attractive capital deployment opportunities
- Parent company cash and investments is well in excess of our two times outflow target

## EXPENSE MANAGEMENT

- Cost management and greater leverage from NPW growth helps drive expense ratio down
- Restructured long-term stock compensation program resulting in corporate expense savings
- Balancing our investments in future growth with operating enhancements including:
  - Workflow and process improvements
  - Innovation Lab
  - Robotics
  - Artificial intelligence
  - Talent development
  - Product innovation

# A FOCUS ON ROE AND GROWTH IN BOOK VALUE PER SHARE

Generating non-GAAP operating ROE\* in line with our long-term target

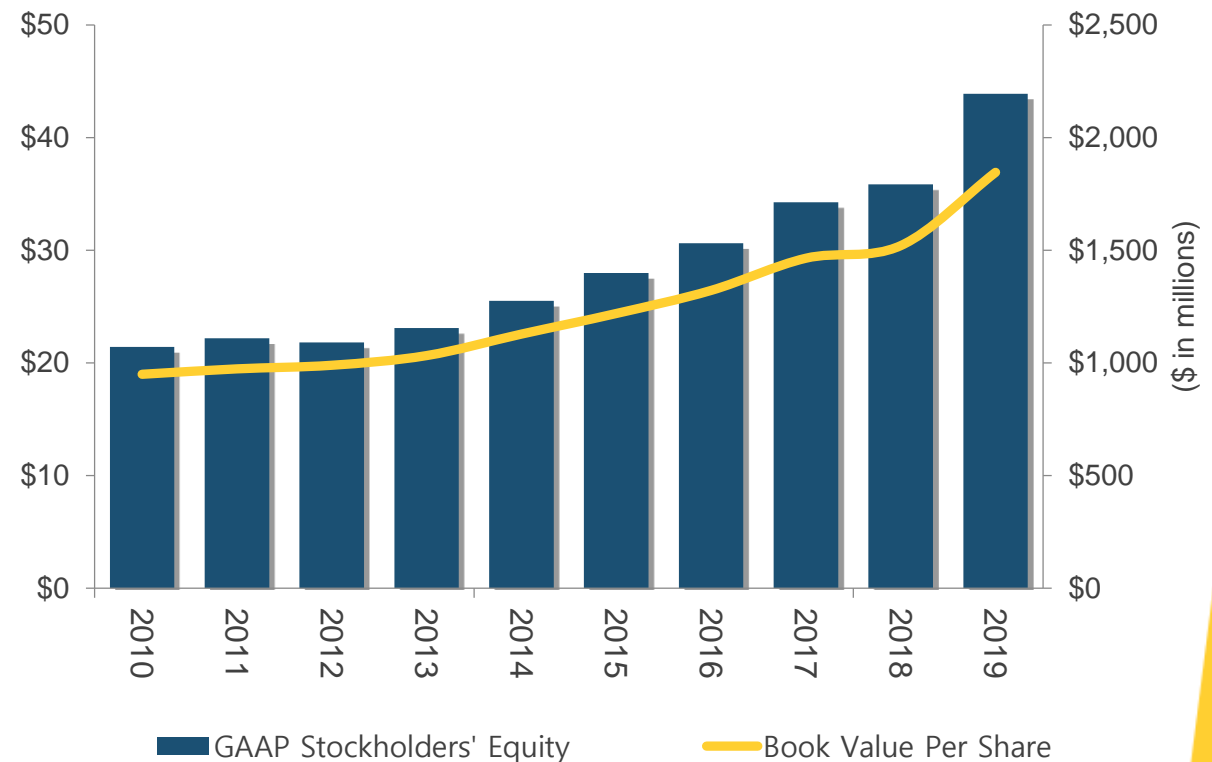


Superior growth in book value per share



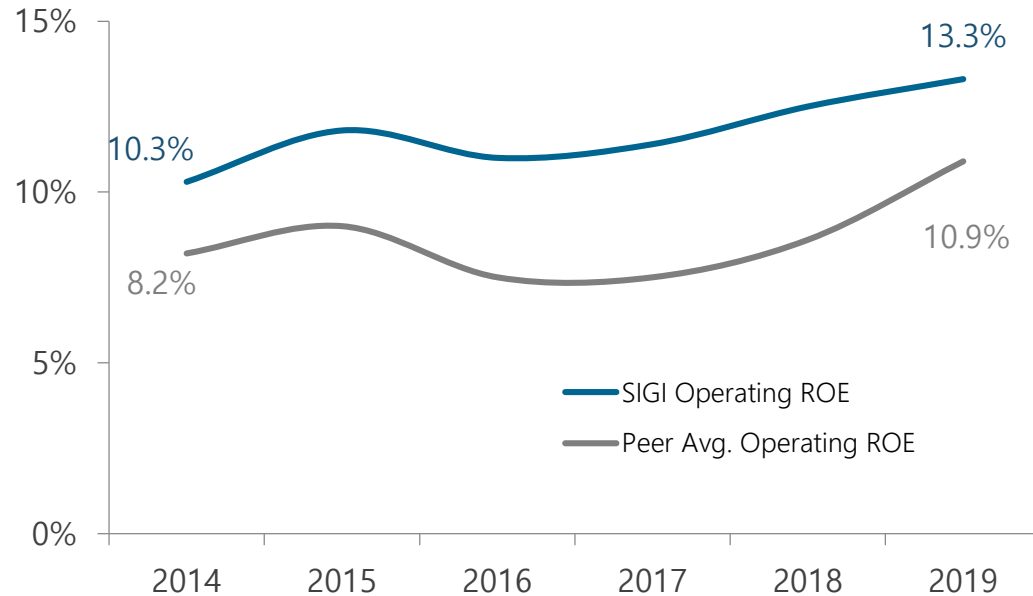
Higher total shareholder returns over time

Strong Track Record of Book Value per Share Growth and Shareholder Value Creation



# STRONG ROE OUTPERFORMANCE RELATIVE TO PEERS

## Historical Non-GAAP Operating ROEs\*



- Strong underwriting and investment contributions
- Superior 13.3% non-GAAP operating ROE\* in 2019
  - Underwriting ROE contribution of 6.5%
  - Investment ROE contribution of 9.1%
- 2020 non-GAAP operating ROE\* target of 11% (*not guidance*)

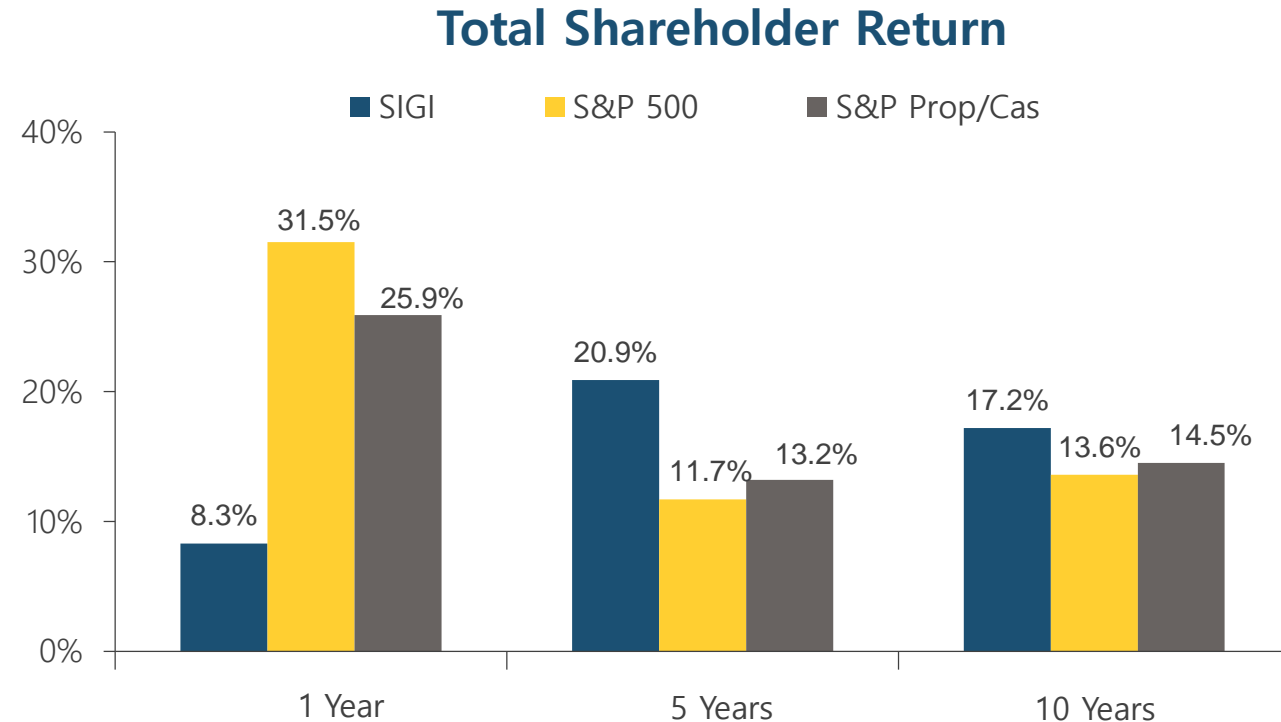
\* Refer to "Safe Harbor Statement" on page 2 of this presentation for further detail regarding certain non-GAAP financial measures.

Peer index includes TRV, HIG, CNA, CIN, THG, UFCS, MCY, HMN, and KMPR; for nine months of 2019



## TOTAL SHAREHOLDER RETURNS HAVE OUTPERFORMED BENCHMARKS

- Solid outperformance in total shareholder return relative to S&P P&C insurance index and S&P 500 index over the past 5- and 10-year periods
- Share price performance has reflected our ability to generate strong and consistent financial results



Note: Total shareholder return calculations as of December 31, 2019



## OUR VALUE PROPOSITION

- Leveraging our competitive strengths to generate sustained financial outperformance
  - Franchise value distribution model with best-in-class partners
  - Unique field model enabled by sophisticated technology
  - Strong customer experience
- Excellent growth opportunities within footprint and geo-expansion
- Solid underwriting margins, and non-GAAP operating ROEs\* in line with our financial targets
- Conservative approach to risk selection and balance sheet and capital management

**Selective delivers high-tech, high-touch insurance solutions while leveraging a unique distribution model to generate long-term value**



# 2020 Investor Presentation

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