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Selective Insurance Group, Inc. (SIGI)

Q3 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to Selective Insurance Group Third Quarter 2025 Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. Instructions will be given at that time. Please be advised that today's conference is being recorded.

I would now like to turn the conference over to Brad Wilson, Senior Vice President, Investor Relations and Treasurer. Please go ahead.

Brad Wilson

Senior Vice President-Investor Relations & Treasurer, Selective Insurance Group, Inc.

Good morning. Thank you for joining Selective's third quarter 2025 earnings conference call. Yesterday, we posted our earnings press release, financial supplement and investor presentation on selective.com's Investor Section. A replay of the webcast will be available there shortly after this call. John Marchioni, our Chairman of the Board, President and Chief Executive Officer; and Patrick Brennan, Executive Vice President and Chief Financial Officer, will discuss third quarter results and take your questions.

We will reference non-GAAP measures that insurance and investment professionals use to evaluate operational and financial performance. These non-GAAP measures include operating income, operating return on common equity and adjusted book value per common share. The financial supplements on our website include GAAP reconciliations to any referenced non-GAAP financial measures. We will also make statements and projections about our future performance. These are forward-looking statements under the Private Securities Litigation Reform Act of 1995, not guarantees of future performance. These statements are subject to risks and

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uncertainties that we disclose in our annual, quarterly and current reports filed with the SEC. We undertake no obligation to update or revise any forward-looking statements.

Now, I'll turn the call over to John.

John J. Marchioni

Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

Thanks, Brad, and good morning. This quarter we delivered an operating return on equity of 13.2%, driven by strong investment income, which increased 18% year-over-year. We are on track to deliver full-year operating ROE in the – in the 14% range. However, our combined ratio guidance of 97% to 98% exceeds our 95% long-term target. To address this, we are prioritizing profit improvement and moderating premium growth. Risk selection, granular and accurate risk pricing, and prompt fair claims adjudication are foundational capabilities we have built over many decades. We have a solid foundation, but are continuing to strengthen these core competencies to compete effectively in this dynamic environment. Across the company, we are sharpening our focus on a set of key priorities. First, relentlessly improving on the fundamentals across risk selection, individual policy pricing and claim outcomes. Second, diversifying revenue and income within and across our three insurance segments. And third, further leveraging our use of data analytics and technology, including artificial intelligence, to drive operational efficiency and improved underwriting claim outcomes.

Turning to results, we recorded unfavorable prior year casualty reserve development of $40 million or 3.3 points in the quarter, $35 million relates to commercial auto and $5 million for personal auto. Unfavorable prior year development in both lines is attributed to the 2024 accident year and is primarily driven by the state of New Jersey. With recent prior accident year reserve strengthening in each of the last two quarters, we refined our view of the current accident year for commercial auto. This adjustment added just under 5 points to the current year casualty loss costs for the lines year-to-date combined ratio.

For the quarter, the pressure in casualty lines was offset by light property catastrophe activity and favorable non-catastrophe property results. In total, our combined ratio for the quarter was 98.6%. As you know, we book our best estimate each quarter incorporating new and emerging information as it becomes available. Consistent with our longstanding practice, we continue to engage an independent party to conduct semiannual reserve reviews and sign our actuarial statement of opinions.

Over the past 15 months, we have supplemented these external reviews by engaging other independent third parties to evaluate our reserving, planning and claims processes. Through their reviews, the outside firms have provided us with additional industry perspectives on current loss trends and best practices. The reviews confirm that our actuarial processes are reasonable and consistent with best practices for methodology, data and approach. Most recently, we had an independent review of our overall casualty reserve adequacy completed. It indicated that our booked reserves were in a reasonable range and importantly above the third party's central estimate. The third-party review confirmed that our approach was somewhat more responsive to recent elevated trends they are seeing industry wide.

Consequently, we have greater confidence in our overall reserves and we maintained our actuarial approach and management processes to determine our best estimate for the quarter. The claims reviews included evaluations of samples from both open and closed claim files. The findings on open claims indicate that our claims management and reserving practices are consistent with internal guidelines aligned with industry best practices and that valuations have been reasonable. The review of closed claims is ongoing. We'll continue to incorporate enhancement recommendations from these reviews, augmenting our other ongoing claims handling and litigation management process and system improvements.

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Last quarter, we took reserving action in commercial auto liability, responding to increasing paid severities. This quarter, these trends escalated in specific jurisdictions, most notably New Jersey. Otherwise, auto liability loss ratios have been in line with our expectations, with improving accident year loss ratios driven by consistent rate increases.

While rate increases continue to be an important lever, rate alone will not be sufficient to drive and maintain long-term profitability in this line, particularly in certain jurisdictions. The legislative, regulatory and judicial environments in these jurisdictions present specific challenges and we intend to take significant targeted underwriting actions. Specifically for commercial auto, several actions are underway.

In early September, we deployed an updated rating plan and predictive modeling to provide more granular pricing segmentation for the auto line, incorporating several enhanced variables, including additional vehicle and driver-specific criteria. We've implemented tighter underwriting guidelines on fleet exposures, supported by state-level tactics and analytics to better identify and target risks. We are targeting certain segments and states for higher penetration of Compass, our telematics solution. And in further support of our risk management specialist engagement on fleet safety with our insureds, we are actively promoting increased use of commercial auto self-assessments in our Risk Management Center, which provides customers online risk management guidance and expertise. We continue to invest in processes and tools to further elevate our underwriting, pricing and claims sophistication. While this is not a new initiative, there are opportunities to sharpen fundamental disciplines, including risk selection, individual risk pricing and claims adjudication.

Maintaining our focus and sense of urgency is critical to improving underwriting margins and supporting long-term profitable growth. We continue to diversify our portfolio by expanding our Standard Commercial Lines footprint. Since 2017, we have strategically added 14 states with two more planned in 2026. Geographic expansion has significantly increased our addressable market and we've advanced our stated goal of operating our Standard Commercial Lines business with a near national footprint. Going forward, we will continue to pursue opportunities to further diversify our business within and across our three insurance segments.

Before I turn the call over to Patrick, I want to reinforce three foundational points shaping our performance and long-term strategy. First, we firmly believe that insurance requires a long-term perspective, particularly with long tail casualty lines. To that end, we will trade short-term impacts for long-term sustainable success. By reacting quickly to current claim trends, we are better positioned to ensure our pricing indications are appropriately positioned to achieve our long-term underwriting margin targets.

Second, we believe that prudent decisions made now with the best information available are the surest way to deliver value over time. Analyzing new information requires us to constantly refine our views of the market and take appropriate and sometimes difficult actions. This ongoing process reinforces the importance of maintaining a long-term perspective.

Third, we continue to invest to deliver long-term profitable growth, even as the market is increasingly competitive. Growth levers include achieving greater market share and segment diversification in Standard Commercial Lines, potential geographic expansion in personal lines and increasing our product and distribution capabilities in E&S and other specialty lines. We also prioritize returning approximately 20% to 25% of earnings through our shareholder dividend.

In addition, guided by our capital strength and the valuation of our stock, we will opportunistically repurchase shares as we did this quarter. The $36 million of repurchases in the quarter, the new $200 million purchase –

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repurchase authorization and the 13% dividend increase reflect our confidence in the path forward and the value we perceive in our stock. Our full year guidance implies an underlying combined ratio of 91% to 92%, up 1 point from our expectation at the beginning of the year, driven by our actions to strengthen the current accident year. We remain committed to taking a longer-term perspective, making tough decisions when necessary and investing in profitable growth to deliver long-term value to shareholders.

Now, I will turn it over to Patrick, who will provide more details about our financial results.

Patrick S. Brennan

Chief Financial Officer & Executive Vice President, Selective Insurance Group, Inc.

Thanks, John, and good morning, everyone. For the quarter, fully diluted EPS was $1.85, up 26% from a year ago. Non-GAAP operating EPS was $1.75, up 25%. Our return on equity was 14% and our operating return on equity was 13.2%, with continued strong performance from the investment portfolio. The GAAP combined ratio was 98.6%, elevated primarily due to 3.3 points of unfavorable prior year casualty reserve development and 6.2 points of higher current year casualty loss costs. Catastrophe losses were 2.1 points, significantly better than anticipated, and 11.3 points better than the prior year period. Our full-year guidance now includes a 4-point catastrophe load, reflecting lower than expected catastrophe losses through the first nine months. The overall underlying combined ratio for the quarter was 93.2%, up from 86.1% in the third quarter 2024, reflecting higher current year casualty loss costs. Non-catastrophe property losses, although better than expected, were 0.9 points higher than last year.

Year-to-date, the underlying combined ratio was 91.6%, 2.6 points higher than the first nine months of 2024. Non-catastrophe property losses were 14.7 points year-to-date. This was an 80 basis point improvement year-over-year and reflected the continued benefits from property lines earned rate and a tightening of terms and conditions over the past few years. Year-to-date, these benefits were eclipsed by a 3.1 point increase in current year casualty loss costs. The expense ratio increased by 40 basis points, primarily driven by higher expected employee compensation compared to last year's lower profit-based payouts. We remain disciplined in managing expenses, but continue to invest across our business to support scale, enhance decision making and improve operational efficiency.

In Standard Commercial Lines, we reported a 101.1% combined ratio this quarter, which included 3.7 points of unfavorable prior year casualty development and 6.6 points of higher current year casualty loss costs. As John described, the current environment demands strong underwriting and pricing discipline. Consequently, premium growth in the quarter slowed to 4%. Renewal pure price increased 8.9% or 10%, excluding workers compensation. The biggest increases were in general liability at 11.4% and commercial auto at 10%. Renewal premium change for property was 15.5%, including 5.1 points of exposure increase. Retention for the quarter was 82%, down 4 points from a year ago and 1 point from last quarter. The decrease reflects our pricing and underwriting actions as well as an increasingly competitive environment. Excess and Surplus Lines grew 14% in the quarter, driven by average renewal pure price increases of 8.3%. The combined ratio was 76.2%. We see continued growth opportunities in this segment, despite an increasingly competitive market.

Our deliberate E&S strategies include introducing new products, expanding our brokerage business, and investing in operational efficiency, and piloting expanded distribution by giving retail agents access to our E&S offerings. We are excited about this segment's forward growth prospects.

The Personal Lines combined ratio was 110.1% this quarter, 12 points better than a year ago. However, our New Jersey personal auto reserving actions added 4.9 points of unfavorable prior year casualty development from the 2024 accident year. It also drove the 7.2 point increase in current year casualty loss costs this quarter. Personal

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Lines net premiums written declined 6%. However, target business grew 12% in the quarter, with nearly all new business being in our target mass affluent market. Renewal pure price for the quarter was 16.9%. Third quarter after tax net investment income was a $110 million, up 18% from a year ago. This income generated 13.6 points of return on equity, up 50 basis points from the third quarter of 2024. Our investment portfolio continues to be positioned conservatively and we have not significantly changed our investment strategy with an average credit quality of A+ and duration of 4.1 years. We delivered strong operating cash flow in the quarter, supporting continued portfolio growth. The average new purchase yield was an attractive 5.8% pre-tax exceeding the quarter end average pre-tax book yield of 5.1%. We expect this embedded book yield to provide a durable source of future investment income, even if interest rates decline.

Turning to capital management, as John mentioned, we continue to prioritize profitable growth within our insurance business and aim to return 20% to 25% of our earnings through dividends. We also opportunistically repurchase shares. These actions reflect our commitment to delivering long-term value to shareholders. We are pleased to announce a 13% increase in our quarterly dividend, our 12th consecutive annual increase. We also repurchased $36 million of common stock during the quarter, with year-to-date repurchases through September totaling $56 million.

Given the increased level of share repurchases in 2025, our Board of Directors authorized a new $200 million share repurchase program. This replaces the previous authorization and we expect to deploy it opportunistically. We ended the quarter with $3.5 billion of GAAP equity and $3.4 billion of statutory surplus. Book value per share increased 13% in the first nine months of the year, driven by our profitability at a $2.77 per share reduction in after tax net unrealized losses.

Debt to total capital declined modestly to 20.5%, below our internal threshold of 25%. In light of results through the first nine months of the year, we have revised our 2025 guidance as follows. First, we expect our 2025 GAAP combined ratio to be between 97% and 98% in line with our prior guidance. Our guidance now includes 4 points of catastrophe losses lower than our previous 6-point estimate, reflecting favorable results through the first nine months of the year. Guidance also includes the impact of prior year casualty reserve development reported through the third quarter, which equals approximately 2 points on the full-year combined ratio. It also assumes no additional prior-year casualty reserve development and no further change in loss cost estimates. We do not make assumptions about future reserve development as we book our best estimate each quarter.

Second, we also expect after tax net investment income of $420 million, up from prior guidance of $415 million. We also expect an overall effective tax rate of 21.5% and an estimated 61.1 million fully diluted weighted average shares reflecting repurchases in the first nine months of the year and we assume no additional repurchases under our share repurchase authorization.

With that, I'll now turn it over to Q&A. Operator, please start our question-and-answer session.

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] The first question comes from Michael Phillips with Oppenheimer. Your line is open.

Michael Phillips
Analyst, Oppenheimer & Co., Inc.

Q

Thank you. Good morning. John, I appreciate the comments in the opening about the commercial auto and it seems like this quarter was isolated to one accident year and one state predominantly in New Jersey. But I guess if we go back to last year when you were taking some GL charges and just correct me if I'm wrong here on my perception of kind of the comments, the GL charges last year, you got some questions about could this spill over into commercial auto. And it seemed pretty confident that it wouldn't. The last two quarters granted $60 million total in two quarters isn't a big number, but it's – it's continued two quarters in a row. So, is my perception right? And if so, kind of what's changed? Maybe just New Jersey, but sort of it seems like commercial auto now is the problem child. And if so that wasn't the case before or sort of what's different.

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

A

Yeah. Mike, thanks for the question. So, first thing, just going back to the prior comments relative to commercial auto and you've heard me reference it as probably the earlier evidence of higher severity trends and the evidence of social inflation. I think that – that comment continues to – to hold weight. And what I mean by that is if you look back to our public disclosures, we have been carrying a higher assumed loss trends in commercial auto than GL dating back to 2021. And in fact we increased our – our GL – I'm sorry commercial auto liability trend assumption to 8.5% in 2022 and carried it there.

I think what we – what we've seen in the last two quarters is a re-acceleration of severity trend, particularly in the state of New Jersey. And remember New Jersey is a bigger state for us in the commercial auto line. It represents about 15% of our countrywide commercial auto premium. And we've seen higher severity emerge there. And I'm happy to talk through some of what we think might be driving that. New Jersey has always been a higher severity state across all casualty lines of business, but we've seen that really impact the last couple of quarters. We didn't point it out last quarter, but it was also the primary driver of our commercial auto emergence that we saw last quarter as well. So, I would say that's the change that we've seen and recognized. I think the positive is a non-New Jersey perspective in commercial auto liability, but not that there hasn't been some pressure there. But our – our actual emergence in those other states has held up reasonably well relative to our expectations.

Michael Phillips
Analyst, Oppenheimer & Co., Inc.

Q

Okay. Yeah, maybe we can get into the details New Jersey, another venue we're here, if anybody just wanted to appreciate that. I guess second then for me would be, you talked about the added third parties that you kind of looked at reserves for you guys, the external reserves, reviews. And make sure I heard you correctly. It sounded like I mean one of my takeaways was it sounded like as – as they looked at your reserves and compare it to what they see as industry trends, I sort of heard maybe a warning sign that industry looks like there could be some deficiencies and you guys are staying ahead of it. But it sounded like some warning signs for some pockets of deficiency for the industry that just hasn't been recognized yet. And did I hear that right? Is that what you're seeing?

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John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

A

Yeah. I guess I'll stop short of suggesting what you're saying here with regard to whether or not there's going to be industry challenges going forward. What I will see, what I will say and reinforce though is the validation from more than one external, actuarial expert that has a broader view of the industry, that the elevated trends that we're responding to in a more recent accident years are evident across the industry. And that is – that is clearly a statement that we – we've gotten from them. It's – it's something that we've heard repeatedly from our reinsurance partners, the majority whom we just met with earlier this month out of the CIAB – CIAB meeting.

I think that's, while it doesn't – it doesn't change the results that we're delivering, I think it – it does suggest that in fact this is something that's more widespread. And again I would encourage you to look over a longer time horizon at both commercial auto liability and general liability. And just look over the last 10 years up to and including the – our current view of the more recent years and what you see is our performance over the long-term continues to hold up really well for commercial auto liability and general liability against the industry. Doesn't change the fact that these lines are under pressure and they're under continued pressure from elevated social inflationary trends. But we're reacting and we're reacting in a way that we think is timely and appropriate. And I'm highly confident that when we look back at these more recent accident years, post-pandemic as they age, for us and everybody else, that our track record and our reputation of being a strong underwriting company, history will show that that's continued to be the case. I understand it might not feel that way right now, but that's how we manage our business and that's how we'll continue to manage our business.

Michael Phillips
Analyst, Oppenheimer & Co., Inc.

Q

Okay. Yeah. Thanks for the detail. I appreciate it. And that's all I had for now. Thanks.

Operator: And our next question will come from Michael Zaremski with BMO Capital Markets. Your line is open.

Michael Zaremski
Analyst, BMO Capital Markets Corp.

Q

Hey, thanks. Good morning. If you could explain more of the thought process behind continuing to buy back shares if the reserve review has been leading to the loss ratio profit margin pressure, and you said there's still an ongoing review of closed claims that – that – that will or could impact ongoing claims and ultimately reserves. So, I guess why not wait till the coast is clear?

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

A

Well, just a – just a clarifying point. The open – the open and closed claims reviews were – were designed to evaluate whether or not there was something happening in the claims organization that might be driving some of this. There's no evidence of that. And based on the early indications we've had, as the closed claim review is actually two-thirds complete, there's nothing there that would suggest any issues. With regard to reserving, we book our best estimates and we continue to book our best estimates and we have high conviction in those estimates. And that conviction has only been reinforced by the external reviews. I think the challenge right now is our results on an absolute basis are not the issue. It's our results on a relative to industry basis that is causing the pressure. And with our 6% top line growth rate and as we said and expect – expectations for the full year of 14% ROE, we are building book value per share, we're building capital in surplus. And as a result of that, that is the board's way of expressing confidence in our forward earnings.

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Michael Zaremski

Analyst, BMO Capital Markets Corp.

Q

Got it. Okay. As a follow up, in commercial auto you took up the pick, I think 5-ish points. How much of that was influenced by the – the study that you commissioned versus just on things you're seeing? Or is it all – is it all co-mingled?

John J. Marchioni

Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

A

Yeah. That's – that's a result of our internal analysis. Again, the point we made about the outcome of the third-party review of adequacy was that we are above their central estimate in total and the reaction as continues to be the case, is based on our internal evaluation. And again with regard to commercial auto, that continues to be predominantly driven by the state of New Jersey. And based on what we see, because we have good insight into other company filings and other company's indications, frequency and severity trends in New Jersey over the last couple of years have accelerated. And that's – that's what we're reacting to. And we're seeing that in actual claim emergence on the paid and incurred side in the state of New Jersey.

Michael Zaremski

Analyst, BMO Capital Markets Corp.

Q

Got it. And my last follow up, while I believe you said 8.5% is your trend assumption in commercial auto, is that correct?

John J. Marchioni

Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

A

Yes, it's been – it's in that range dating back to 2022. And again those were our assumed loss trends that we incorporated into our expected loss ratios.

Michael Zaremski

Analyst, BMO Capital Markets Corp.

Q

Yeah. And so if we look at the 8.5%, is it a correct statement for me to say that if we look at your historical loss ratio development for commercial auto, specifically in vintages that are more seasoned, so let's say 2018, 2019, I'm going to exclude 2020 because the pandemic year and 2021, so if I look at those vintages they're more seasoned and see how the loss ratio has trended. Is it correct to say that loss inflation on those vintages has been higher than 8.5%?

John J. Marchioni

Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

A

No, no. We're talking about the post-pandemic accident years. I mean for commercial auto liability those pre-pandemic years are quite mature at this point. And the – the pressure we've seen of late has not been driven at all by those pre-pandemic accident years. So, I would actually say those are – there's no change with regard to those. It's more of these recent actions we're responding to. And again I think it's important to note that our average commercial auto BI rate over the last four to five years is a little over 10%. So, while – while trends have been elevated, the earned rate level has been largely offsetting that impact when we look at loss ratios and on level and trend them and look at the pre-pandemic block of years to where the current years are and that's how you want to think about that model.

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Michael Zaremski
Analyst, BMO Capital Markets Corp.

Q

Thank you.

Operator: And the next question will come from Meyer Shields with KBW. Your line is open.

Jing Li
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Hi, good morning. This is Jing on for Meyer. Thank you for taking my question. My first question is on the general liability reserves. I know you reported no reserve development. Just curious, is there any shift among individual accident years?

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

A

No. There's nothing notable with regard to any accident year movement within GL. Those are – those are stable overall.

Jing Li
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Got it. Thank you. My second question is on your expansion to the new state. You mentioned entering Kansas this quarter and entering Montana, Wyoming next year. Just curious what you're seeing in these markets? What the initial agents receptivity on – on that and what feedback do you have?

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

A

Yeah, I would say, in this – our – our expansion has been ongoing since 2017 and results and agency reaction has been favorable, performance has been in line with our expectations. And I think that continues to be the case. And as I pointed out in my prepared remarks, one of our organizational priorities is to continue to diversify our business. And part of that diversification is geographic, part of it is one business and product, and part of it is across the three primary business that is commercial, personal and E&S. And that geo expansion is a big part of our diversification in standard commercial lines. And as a part of it is we will talk a lot about New Jersey portfolio so far this morning and it's a state that – that we have performed well across all lines over the long term, but there's a concentration there that we were trying to manage. And – and over the last decade, our New Jersey share has gone from north of 20% to about 16%, and we think that will continue to happen going forward with our expansion and I think that is just part of how we think about the business longer term is to drive greater diversification in both revenue and income.

Jing Li
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Got it. Just a follow up on the – are there any lines or customer segments you're seeing especially strong interest on distribution?

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

A

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I would say our – our performance in our expansion states over the last eight years, the mix of business is generally reflective of the mix we – we've seen in our existing footprint on a line and a segment basis.

Jing Li
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Got it. Thank you. Appreciate the color.

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

A

Thank you.

Operator: And the next question will come from Paul Newsome with Piper Sandler. Your line is open.

Paul Newsome
Analyst, Piper Sandler & Co.

Q

Good morning. Thanks for the call. So, I guess the first question would be if any thoughts you could give us on how we should think about premium growth, I mean I think we can figure out the size of your commercial auto business in New Jersey, but I guess the follow-on question would be if that business tends to shrink as you become more conservative, does that affect the package business? I think of you folks as being a package provider more than anything else. Any thoughts that kind of might give – push us in the right direction will be great.

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

A

Yeah, sure. So, I'll give you some – some sort of higher level thoughts around this first and foremost and I'll say this has always been the case. We think about growth as more of an outcome as opposed to a target. And for us it's always about striving to achieve your target margins. And then growth will be determined in part by market dynamics and whether the market is reacting in a similar fashion and has a similar view of indicated rates or adequate rate levels on state and line of business basis. And there's no question and you – you hear the commentary and you see the industry pricing surveys that would suggest that our pricing or our – our actual pricing being achieved in GL and commercial auto liability are above where industry surveys are currently showing market pricing, that has and will continue to put some pressure on conversion rates and as we've said on multiple occasions, that's a trade-off that we're willing to make. And I think what you saw in the quarter is – is reflective of that.

New Jersey, as I mentioned earlier, is about 15% of our – of our auto premium across the country in commercial – commercial auto premium. And if you look at New Jersey in total, it's a – it's a similar percentage of our footprint. So, we are going to – we have underperforming pockets of business like we're talking about with regard to New Jersey commercial auto. We will take aggressive action to address that and that will impact growth without question. And that's a tradeoff we're willing to make.

Paul Newsome
Analyst, Piper Sandler & Co.

Q

That sounds good. Another question would be any additional help on thinking about the level of the 2024 accident year, maybe excluding catastrophe losses. Obviously, you jumped up in this quarter because of the commercial auto issues in New Jersey and other places. But I don't know if that's a good run rate for the future or if we should

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think about maybe the run rate on your day results as a better run rate. Any thoughts you have there in terms of – what might be a higher accident year loss ratio prospectively? And I – I realize some of this has to do with pricing and – and perhaps even the lag between gaining the pricing and that actually bringing in over time.

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.
A

Yeah. So, I guess, Paul, the best place to really focus. If you look at the nine months and then look at the full-year guidance, the full-year guidance of a 97% to 98% with our four-point assumption relative to cats gets you to an underlying combined ratio on an accident year basis of 91% to 92%. Because you've got two points of PYD, roughly two points of PYD in the – in the current year and you've got the adjustments to the current year casualty loss cost that are adding about two points and then you've got non-cat and expense favorable. So, you put all those pieces together and I think as you're thinking about the run rate, I would focus more on that 91% to 92% that underlies our guidance for the full year of 97% to 98%, and I'm happy to go through those, yeah, I know there is moving pieces there. But you have to – you have to incorporate the current year loss cost changes that we've been making. But you got to also adjust for the PYD impact.

Paul Newsome
Analyst, Piper Sandler & Co.
Q

Great. Thank you. Appreciate the help as always.

Operator: And the next question will come from Bob Huang with Morgan Stanley. Your line is open.

Bob Huang
Analyst, Morgan Stanley & Co. LLC
Q

Yeah. So, first question is on the 2025 developments. I think last quarter you talked about 2025 was still favorable to expectations. Can you remind us, so can you remind us if that is still the case comparing to 2025 picks to the 2024 and the prior picks?

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.
A

Yeah. Just to clarify one point. So, what we've said and will continue to say is that claim frequencies in the current year have been running in line with or better than expected and we pointed particularly to workers comp as the line that was driving the – the better-than-expected claim counts.

In casualty lines, you never want to react that quickly to favorable claim counts, but those claim counts have continued to come in better than expected. That's – that's what we said last quarter. And that's what I'll repeat again. And that's different from the decision that we made in the quarter to book additional loss ratio impact in the commercial auto line of business specifically and specifically driven or largely driven by the state of New Jersey.

Bob Huang
Analyst, Morgan Stanley & Co. LLC
Q

Okay. No, that's – that's helpful. Second question, and apologies, this is all hypothetical. Does it make sense to kind of find or somehow explore ways to have a bigger, much, much bigger balance sheet, either through like a variety of other ways of thinking about the business going forward, like wouldn't that kind of reduce the reserve volatility and would that also maybe better absorb reserve volatility? Is there a way to think about does it make

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sense for Selective to find a way to somehow explore opportunities to have a much bigger balance sheet one way or another?

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

A

In our view, this business is still about getting the fundamentals right and achieving your target loss ratios. I think and again I realize there's recency bias and there's been – there's been some challenges in an uncertain loss trend environment. And we are a little bit overweight to commercial auto liability, general liability, which has created some – some near-term challenges. But I think when you look at it over the long term and the way we optimize the balance sheet and maximize shareholder returns and deliver consistent strong performance from an underwriting perspective, we like the strategy, we like the operating model, and that's going to continue to be our focus.

Bob Huang
Analyst, Morgan Stanley & Co. LLC

Q

Got it. Thank you very much. Really appreciate it.

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

A

Thank you.

Operator: And the next question comes from Michael Zaremski with BMO Capital Markets. Your line is open.

Michael Zaremski
Analyst, BMO Capital Markets Corp.

Q

Appreciate you letting in a few follow ups. One thing that caught my attention was, you talked about RPC for property.

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

A

Yes.

Michael Zaremski
Analyst, BMO Capital Markets Corp.

Q

It's somewhat accelerating into the 15s that we've been seeing a decel industry wide. What's causing that?

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

A

I would say that we've seen a little bit of deceleration in – in property, but in our mind property is – is a line that while the results have improved and continue to improve and rate remains strong, it's aligned on a risk adjusted basis. You have to think about the longer-term variability and volatility in both non-cat and cat property. So, our – our risk-adjusted combined ratio target for that line is lower. So, we're going to continue to try to improve margins there. So, the exposure change has been fairly consistent in that renewal premium change that you're referencing and the rate is just under 10%. So, that's held in strong but has drifted down a little bit. And we would expect based on – on market dynamics for property, commercial property pricing to drift out a little bit further but remain

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strong against a relatively low exposure change in that line of business or loss trend, sorry, in that line of business.

Michael Zaremski
Analyst, BMO Capital Markets Corp.

Q

Got it. And lastly just stepping back, thinking about kind of these corrective actions that you're taking to improve profitability. Yeah, I think when we think of Selective, you all target to have well into the double-digit share of I guess you call it share of wallet with your agency partners. And so does that , and you talk about the market becoming a bit more competitive overall, so is there – does it – in your view these corrective actions, do they need it be – be kind of dealt over many, many quarters in order to not let retention continue falling, maybe into the 70s? Is that kind of a – are you walking that – that line?

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

A

Yeah. It's a great question. First thing I'll say is, I think the benefit of depth of relationship that we have and size of relationship we have agency by agency is beneficial because the – the renewal negotiation ensures that we have good communication back and forth. What I will say is and I – I mentioned this and this was sort of underlies our discussion about improving the fundamentals. It's important that in an environment like this, you execute you pricing and underwriting strategies in as granular a fashion as possible by account, by class, by state, by line of business. And our ability to continue to do that and do that effectively should mitigate some of the downward impact on retention overall.

Now, again, we are willing to make that trade if push comes to shove, but the granularity of our execution will ultimately determine how agents respond to that and how the overall retention rate responds to that. And I'll put that in the category, one of the areas that we'll continue to focus on from a continuous improvement perspective is the granularity of execution. I think we have the tools to do that. We want to make sure we're effectively executing with those tools.

Michael Zaremski
Analyst, BMO Capital Markets Corp.

Q

Thank you.

Operator: And the next question will come from Michael Phillips with Oppenheimer. Your line is open.

Michael Phillips
Analyst, Oppenheimer & Co., Inc.

Q

Hey, thanks. Thanks for letting me back. I had two follow ups also. John, I think you said New Jersey frequency severity kind of rising over the last couple of years. If I heard that correctly, does that mean that we should be worried in the future about accident year 2023?

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

A

No, I would suggest that we – we continue to book our best estimate across all accident years. So, our – our response this quarter, what we saw this quarter was driven by the 2024 accident year, but the actions last quarter were 2022 through 2024 accident year. So, I would say that we're talking about the commercial auto reserve position across the recent accident years and are acting accordingly across all of those.

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Michael Phillips
Analyst, Oppenheimer & Co., Inc.

Q

Okay. And then. Okay. Thank you. Given the third parties have kind of confirmed and give you some confidence in what you're booking, have you ruled out or have you considered maybe an LPT for your reserves on the casualty side to help give some confidence in what you're booking?

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

A

Yeah. I would – I would say that reinsurance opportunities, including some sort of a cover like that are things that we routinely evaluate. But at the same time these are very recent accident years. We're confident in how we're booking those accident years. And the economics on that would not be favorable from our perspective, because that – that – that – these are immature years and anybody who is going to come in on the reinsurance side is going to command a lot of the economics. And that's just not something we think is all that attractive. But we'll continue to evaluate it. We just don't think it makes sense for us at this point.

Michael Phillips
Analyst, Oppenheimer & Co., Inc.

Q

Okay. Makes sense. Thank you.

Operator: I am showing no further questions at this time in the queue. I would now like to turn the call back over to John for closing remarks.

John J. Marchioni
Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.

Well, thank you for joining us. We appreciate the questions and the interest and as always please feel free to follow up with Brad with any additional questions you might have. Thank you.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect.

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