

SELECTIVE INSURANCE GROUP INC
Form 10-Q
October 31, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: September 30, 2013
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-33067

SELECTIVE INSURANCE GROUP, INC.
(Exact Name of Registrant as Specified in Its Charter)

New Jersey
(State or Other Jurisdiction of Incorporation or Organization)

22-2168890
(I.R.S. Employer Identification No.)

40 Wantage Avenue
Branchville, New Jersey
(Address of Principal Executive Offices)

07890
(Zip Code)

(973) 948-3000
(Registrant's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Edgar Filing: SELECTIVE INSURANCE GROUP INC - Form 10-Q

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of September 30, 2013, there were 55,774,851 shares of common stock, par value \$2.00 per share, outstanding.

Table of Contents

SELECTIVE INSURANCE GROUP, INC.
Table of Contents

	Page No.
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Balance Sheets as of September 30, 2013 (Unaudited) and December 31, 2012</u>	1
<u>Unaudited Consolidated Statements of Income for the Quarter and Nine Months Ended September 30, 2013 and 2012</u>	2
<u>Unaudited Consolidated Statements of Comprehensive Income for the Quarter and Nine Months Ended September 30, 2013 and 2012</u>	3
<u>Unaudited Consolidated Statements of Stockholders' Equity for the Nine Months Ended September 30, 2013 and 2012</u>	4
<u>Unaudited Consolidated Statements of Cash Flow for the Nine Months Ended September 30, 2013 and 2012</u>	5
<u>Notes to Unaudited Interim Consolidated Financial Statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	
<u>Forward-Looking Statements</u>	31
<u>Introduction</u>	31
<u>Critical Accounting Policies and Estimates</u>	31
<u>Financial Highlights of Results for Third Quarter 2013 and Nine Months 2013</u>	32
<u>Results of Operations and Related Information by Segment</u>	36
<u>Federal Income Taxes</u>	53
<u>Financial Condition, Liquidity, Short-term Borrowings, and Capital Resources</u>	53
<u>Ratings</u>	56
<u>Off-Balance Sheet Arrangements</u>	56
<u>Contractual Obligations, Contingent Liabilities, and Commitments</u>	57
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	57
<u>Item 4. Controls and Procedures</u>	57

PART II. OTHER INFORMATION

<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>58</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>58</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>59</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>60</u>
<u>Signatures</u>		<u>61</u>

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SELECTIVE INSURANCE GROUP, INC.
CONSOLIDATED BALANCE SHEETS

	Unaudited	
	September 30, 2013	December 31, 2012
(\$ in thousands, except share amounts)		
ASSETS		
Investments:		
Fixed maturity securities, held-to-maturity – at carrying value (fair value: \$448,529 – 2013; \$594,661 – 2012)	\$421,962	554,069
Fixed maturity securities, available-for-sale – at fair value (amortized cost: \$3,573,751 – 2013; \$3,130,683 – 2012)	3,633,432	3,296,013
Equity securities, available-for-sale – at fair value (cost: \$158,323 – 2013; \$132,441 – 2012)	180,506	151,382
Short-term investments (at cost which approximates fair value)	172,087	214,479
Other investments	108,073	114,076
Total investments (Note 5)	4,516,060	4,330,019
Cash	177	210
Interest and dividends due or accrued	36,044	35,984
Premiums receivable, net of allowance for uncollectible accounts of: \$4,513 – 2013; \$3,906 – 2012	569,214	484,388
Reinsurance recoverables, net	555,579	1,421,109
Prepaid reinsurance premiums	149,182	132,637
Current federal income tax	1,551	2,569
Deferred federal income tax	131,603	119,136
Property and equipment – at cost, net of accumulated depreciation and amortization of: \$176,718 – 2013; \$169,428 – 2012	50,020	47,131
Deferred policy acquisition costs	177,211	155,523
Goodwill	7,849	7,849
Other assets	71,855	57,661
Total assets	\$6,266,345	6,794,216
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Reserve for loss and loss expenses	\$3,316,291	4,068,941
Unearned premiums	1,111,539	974,706
Notes payable (Note 9)	392,407	307,387
Accrued salaries and benefits	116,682	152,396
Other liabilities	205,217	200,194
Total liabilities	\$5,142,136	5,703,624
Stockholders' Equity:		
Preferred stock of \$0 par value per share:	\$—	—
Authorized shares 5,000,000; no shares issued or outstanding		
Common stock of \$2 par value per share:		
Authorized shares 360,000,000		

Edgar Filing: SELECTIVE INSURANCE GROUP INC - Form 10-Q

Issued: 98,957,182 – 2013; 98,194,224 – 2012	197,914	196,388
Additional paid-in capital	284,067	270,654
Retained earnings	1,184,084	1,125,154
Accumulated other comprehensive income (Note 11)	17,083	54,040
Treasury stock – at cost (shares: 43,182,331 – 2013; 43,030,776 – 2012)	(558,939	) (555,644)
Total stockholders' equity	1,124,209	1,090,592
Commitments and contingencies (Note 14)		
Total liabilities and stockholders' equity	\$6,266,345	6,794,216

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

1

Table of Contents

SELECTIVE INSURANCE GROUP, INC.			
UNAUDITED CONSOLIDATED STATEMENTS	Quarter ended September 30,		Nine Months ended September 30,
OF INCOME	2013	2012	2013
(\$ in thousands, except per share amounts)			2012
Revenues:			
Net premiums earned	\$437,568	406,225	1,284,760
Net investment income earned	32,457	30,650	99,330
Net realized gains (losses):			
Net realized investment gains	14,111	1,856	25,124
Other-than-temporary impairments	(680	) (921	) (3,107
Other-than-temporary impairments on fixed maturity securities recognized in other comprehensive income	—	(2,023	) (77
Total net realized gains (losses)	13,431	(1,088	) 21,940
Other income	3,357	1,085	9,677
Total revenues	486,813	436,872	1,415,707
Expenses:			
Loss and loss expense incurred	283,317	272,251	832,760
Policy acquisition costs	145,314	131,849	428,570
Interest expense	5,570	4,725	16,971
Other expenses	8,127	7,733	27,852
Total expenses	442,328	416,558	1,306,153
Income from continuing operations, before federal income tax	44,485	20,314	109,554
Federal income tax expense (benefit):			
Current	6,367	(5,088	) 20,041
Deferred	5,465	7,128	7,433
Total federal income tax expense	11,832	2,040	27,474
Net income from continuing operations	32,653	18,274	82,080
Loss on disposal of discontinued operations, net of tax of \$(538)	—	—	(997
Net income	\$32,653	18,274	81,083
Earnings per share:			
Basic net income from continuing operations	\$0.59	0.33	1.48
Basic net loss from discontinued operations	—	—	(0.02
Basic net income	\$0.59	0.33	1.46
Diluted net income from continuing operations	\$0.57	0.33	1.45
Diluted net loss from discontinued operations	—	—	(0.02
Diluted net income	\$0.57	0.33	1.43
Dividends to stockholders	\$0.13	0.13	0.39

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

2

Table of Contents

SELECTIVE INSURANCE GROUP, INC. UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (\$ in thousands)	Quarter ended September 30,		Nine Months ended September 30,	
	2013	2012	2013	2012
Net income	\$32,653	18,274	81,083	36,655
Other comprehensive income, net of tax:				
Unrealized gains (losses) on investment securities:				
Unrealized holding gains (losses) arising during period	6,383	23,803	(50,576)	41,777
Non-credit portion of other-than-temporary impairments recognized in other comprehensive income	—	1,315	50	1,457
Amount reclassified into net income:				
Held-to-maturity securities	(307)	(219)	(1,172)	(1,236)
Non-credit other-than-temporary impairment	1	6	9	177
Realized (gains) losses on available for sale securities	(8,785)	674	(16,107)	(2,243)
Total unrealized (losses) gains on investment securities	(2,708)	25,579	(67,796)	39,932
Defined benefit pension and post-retirement plans:				
Net actuarial gain	—	—	28,600	—
Amounts reclassified into net income:				
Net actuarial loss	513	904	2,222	2,712
Prior service cost	—	24	6	73
Curtailment expense	—	—	11	—
Total defined benefit pension and post-retirement plans	513	928	30,839	2,785
Other comprehensive (loss) income	(2,195)	26,507	(36,957)	42,717
Comprehensive income	\$30,458	44,781	44,126	79,372

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

Table of Contents

SELECTIVE INSURANCE GROUP, INC. UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (\$ in thousands)	Nine Months ended September 30,	
	2013	2012
Common stock:		
Beginning of year	\$196,388	194,494
Dividend reinvestment plan (shares: 49,964 – 2013; 68,640 – 2012)	100	137
Stock purchase and compensation plans (shares: 712,994 – 2013; 698,723 – 2012)	1,426	1,397
End of period	197,914	196,028
Additional paid-in capital:		
Beginning of year	270,654	257,370
Dividend reinvestment plan	1,052	1,064
Stock purchase and compensation plans	12,361	9,093
End of period	284,067	267,527
Retained earnings:		
Beginning of year	1,125,154	1,116,319
Net income	81,083	36,655
Dividends to stockholders (\$0.39 per share – 2013 and 2012)	(22,153	) (21,859
End of period	1,184,084	1,131,115
Accumulated other comprehensive income:		
Beginning of year	54,040	42,294
Other comprehensive (loss) income	(36,957	) 42,717
End of period	17,083	85,011
Treasury stock:		
Beginning of year	(555,644	) (552,149
Acquisition of treasury stock (shares: 151,555 – 2013; 176,513 – 2012)	(3,295	) (3,154
End of period	(558,939	) (555,303
Total stockholders' equity	\$1,124,209	1,124,378

Selective Insurance Group, Inc. also has authorized, but not issued, 5,000,000 shares of preferred stock, without par value, of which 300,000 shares have been designated Series A junior preferred stock, without par value.

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

Table of Contents

SELECTIVE INSURANCE GROUP, INC. UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOW (\$ in thousands)	Nine Months ended September 30,	
	2013	2012
Operating Activities		
Net income	\$81,083	36,655
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	32,861	29,386
Loss on disposal of discontinued operations	997	—
Stock-based compensation expense	7,428	6,263
Undistributed losses of equity method investments	248	1,090
Net realized gains	(21,940)	(3,448)
Retirement income plan curtailment expense	16	—
Changes in assets and liabilities:		
Increase in reserve for loss and loss expenses, net of reinsurance recoverables	112,876	37,463
Increase in unearned premiums, net of prepaid reinsurance and advance premiums	120,667	119,269
Decrease (increase) in net federal income taxes	8,990	(1,050)
Increase in premiums receivable	(84,826)	(53,659)
Increase in deferred policy acquisition costs	(21,688)	(25,744)
(Decrease) increase in interest and dividends due or accrued	(45)	721
Increase in accrued salaries and benefits	8,286	5,365
Increase in accrued insurance expenses	6,895	299
Other-net	(13,859)	15,144
Net adjustments	156,906	131,099
Net cash provided by operating activities	237,989	167,754
Investing Activities		
Purchase of fixed maturity securities, available-for-sale	(838,634)	(676,408)
Purchase of equity securities, available-for-sale	(112,742)	(41,004)
Purchase of other investments	(7,864)	(9,050)
Purchase of short-term investments	(1,619,948)	(1,231,519)
Purchase of subsidiary	—	255
Sale of subsidiary	1,225	600
Sale of fixed maturity securities, available-for-sale	6,851	92,170
Sale of short-term investments	1,662,340	1,263,684
Redemption and maturities of fixed maturity securities, held-to-maturity	87,952	91,665
Redemption and maturities of fixed maturity securities, available-for-sale	413,722	297,980
Sale of equity securities, available-for-sale	109,399	58,749
Distributions from other investments	10,546	13,910
Sale of other investments	—	1
Purchase of property and equipment	(10,493)	(9,382)
Net cash used in investing activities	(297,646)	(148,349)
Financing Activities		
Dividends to stockholders	(20,532)	(20,188)
Acquisition of treasury stock	(3,295)	(3,154)
Net proceeds from stock purchase and compensation plans	4,305	2,586
Proceeds from issuance of notes payable, net of debt issuance costs	178,435	—

Edgar Filing: SELECTIVE INSURANCE GROUP INC - Form 10-Q

Repayment of notes payable	(100,000) —	
Excess tax benefits from share-based payment arrangements	1,479	904	
Repayments of capital lease obligations	(768) —	
Net cash provided by (used in) financing activities	59,624	(19,852)
Net decrease in cash	(33	) (447)
Cash, beginning of year	210	762	
Cash, end of period	\$177	315	

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

Table of Contents

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Organization

Selective Insurance Group, Inc., through its subsidiaries, (collectively referred to as “we,” “us,” or “our”) offers standard and excess and surplus lines (“E&S”) property and casualty insurance products. Selective Insurance Group, Inc. (referred to as the “Parent”) was incorporated in New Jersey in 1977 and its main offices are located in Branchville, New Jersey. The Parent’s common stock is publicly traded on the NASDAQ Global Select Market under the symbol “SIGI.”

We classify our business into three operating segments:

Our Standard Insurance Operations segment, which is comprised of both commercial lines (“Commercial Lines”) and personal lines (“Personal Lines”) business, sells property and casualty insurance products and services in the standard market, including flood insurance through the National Flood Insurance Program’s (“NFIP”) write-your-own (“WYO”) program;

Our E&S Insurance Operations segment, which is comprised of Commercial Lines property and casualty insurance products and services that are unavailable in the standard market due to market conditions or characteristics of the insured that are caused by the insured’s claim history or the characteristics of their business; and

Our Investments segment, which invests the premiums collected by our Standard and E&S Insurance Operations, as well as amounts generated through our capital management strategies, which may include the issuance of debt and equity securities.

NOTE 2. Basis of Presentation

These interim unaudited consolidated financial statements (“Financial Statements”) include the accounts of the Parent and its subsidiaries, and have been prepared in conformity with: (i) U.S. generally accepted accounting principles (“GAAP”); and (ii) the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) regarding interim financial reporting. The preparation of the Financial Statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported financial statement balances, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. All significant intercompany accounts and transactions between the Parent and its subsidiaries are eliminated in consolidation.

Certain amounts in our prior years’ Financial Statements and related notes have been reclassified to conform to the 2013 presentation. Such reclassifications had no effect on our net income, stockholders’ equity, or cash flows.

These Financial Statements reflect all adjustments that, in our opinion, are normal, recurring, and necessary for a fair presentation of our results of operations and financial condition. The Financial Statements cover the third quarters ended September 30, 2013 (“Third Quarter 2013”) and September 30, 2012 (“Third Quarter 2012”) and the nine-month periods ended September 30, 2013 (“Nine Months 2013”) and September 30, 2012 (“Nine Months 2012”). The Financial Statements do not include all of the information and disclosures required by GAAP and the SEC for audited annual financial statements. Results of operations for any interim period are not necessarily indicative of results for a full year. Consequently, the Financial Statements should be read in conjunction with the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2012 (“2012 Annual Report”).

NOTE 3. Adoption of Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (“ASU 2013-02”), which adds new disclosure requirements for items reclassified out of Accumulated Other Comprehensive Income (“AOCI”). ASU 2013-02 requires entities to disclose additional information about reclassification adjustments, including: (i) changes in AOCI balances by component; and (ii) significant items reclassified out of AOCI. Prospective application of ASU 2013-02 was effective for fiscal years, and interim periods within those years,

beginning after December 15, 2012. We have included the disclosures required by ASU 2013-02 in the notes to our Financial Statements, as required.

In July 2013, the FASB issued ASU No. 2013-11, Income Taxes, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force) ("ASU 2013-11"). ASU 2013-11 applies to all entities with unrecognized tax benefits that also have tax loss or tax credit carryforwards in the same tax jurisdiction as of the reporting date. An unrecognized tax benefit is the difference between a tax position taken or expected to be taken in a tax return and the benefit that is more likely than not sustainable under examination. Under ASU 2013-11, an entity must net an unrecognized tax benefit, or a portion of an unrecognized tax benefit, against deferred tax assets for a net operating loss ("NOL") carryforward, a similar tax loss, or a tax credit carryforward except when:

Table of Contents

• An NOL carryforward, a similar tax loss, or a tax credit carryforward is not available as of the reporting date under the governing tax law to settle taxes that would result from the disallowance of the tax position; or
 ¶ The entity does not intend to use the deferred tax asset for this purpose.

If either of these conditions exists, an entity should present an unrecognized tax benefit in the financial statements as a liability and should not net the unrecognized tax benefit with a deferred tax asset.

ASU 2013-11 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of this guidance will not impact our financial condition or results of operation.

NOTE 4. Statements of Cash Flow

Cash paid during Nine Months 2013 and 2012 for interest and federal income taxes was as follows:

(\$ in thousands)	Nine Months ended September 30,	
	2013	2012
Cash paid during the period for:		
Interest	\$13,325	11,504
Federal income tax	17,000	6,300

At September 30, 2013, included in "Other assets" on the Consolidated Balance Sheets was \$7.0 million of cash received from the NFIP, which is restricted to pay flood claims under the WYO program.

NOTE 5. Investments

(a) The amortized cost, net unrealized gains and losses, carrying value, unrecognized holding gains and losses, and fair value of held-to-maturity ("HTM") fixed maturity securities as of September 30, 2013 and December 31, 2012 were as follows:

September 30, 2013

(\$ in thousands)	Amortized Cost	Net Unrealized Gains (Losses)	Carrying Value	Unrecognized Holding Gains	Unrecognized Holding Losses	Fair Value
Foreign government	\$5,292	151	5,443	122	—	5,565
Obligations of state and political subdivisions	372,281	4,065	376,346	19,297	—	395,643
Corporate securities	29,228	(466)	28,762	3,015	—	31,777
Asset-backed securities ("ABS")	5,890	(755)	5,135	776	—	5,911
Commercial mortgage-backed securities ("CMBS")	7,241	(965)	6,276	3,357	—	9,633
Total HTM fixed maturity securities	\$419,932	2,030	421,962	26,567	—	448,529

December 31, 2012

(\$ in thousands)	Amortized Cost	Net Unrealized Gains (Losses)	Carrying Value	Unrecognized Holding Gains	Unrecognized Holding Losses	Fair Value
Foreign government	\$5,292	212	5,504	367	—	5,871

Edgar Filing: SELECTIVE INSURANCE GROUP INC - Form 10-Q

Obligations of state and political subdivisions	491,180	6,769	497,949	28,996	(23	)	526,922
Corporate securities	38,285	(812	) 37,473	4,648	—		42,121
ABS	6,980	(1,052	) 5,928	1,170	—		7,098
CMBS	8,406	(1,191	) 7,215	5,434	—		12,649
Total HTM fixed maturity securities	\$ 550,143	3,926	554,069	40,615	(23	)	594,661

Unrecognized holding gains and losses of HTM securities are not reflected in the Financial Statements, as they represent fair value fluctuations from the later of: (i) the date a security is designated as HTM; or (ii) the date that an other-than-temporary impairment (“OTTI”) charge is recognized on an HTM security, through the date of the balance sheet. Our HTM securities had an average duration of 2.3 years as of September 30, 2013.

Table of Contents

During Nine Months 2013, 16 securities with a carrying value of \$39.6 million and a net unrecognized gain position of \$1.4 million, were reclassified from an HTM designation to an available-for-sale (“AFS”) designation due to credit rating downgrades by Moody’s Investors Services (“Moody’s”) and/or Standard and Poor’s Financial Services (“S&P”). These unexpected rating downgrades raised concerns about the issuers’ credit worthiness, which changed our intention to hold these securities to maturity.

(b) The cost/amortized cost, unrealized gains and losses, and fair value of AFS securities as of September 30, 2013 and December 31, 2012 were as follows:

September 30, 2013

(\$ in thousands)	Cost/ Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government and government agencies	\$169,163	11,953	(330)	) 180,786
Foreign government	28,797	996	(84)	) 29,709
Obligations of states and political subdivisions	918,403	27,705	(16,610)	) 929,498
Corporate securities	1,629,698	47,932	(14,479)	) 1,663,151
ABS	150,179	1,063	(476)	) 150,766
CMBS ¹	152,464	2,747	(3,263)	) 151,948
Residential mortgage-backed securities (“RMBS ² ”)	525,047	8,932	(6,405)	) 527,574
AFS fixed maturity securities	3,573,751	101,328	(41,647)	) 3,633,432
AFS equity securities	158,323	24,061	(1,878)	) 180,506
Total AFS securities	\$3,732,074	125,389	(43,525)	) 3,813,938

December 31, 2012

(\$ in thousands)	Cost/ Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government and government agencies	\$241,874	17,219	(1)	) 259,092
Foreign government	28,813	1,540	(124)	) 30,229
Obligations of states and political subdivisions	773,953	44,398	(327)	) 818,024
Corporate securities	1,368,954	81,696	(402)	) 1,450,248
ABS	126,330	2,319	(9)	) 128,640
CMBS ¹	133,763	4,572	(1,216)	) 137,119
RMBS ²	456,996	15,961	(296)	) 472,661
AFS fixed maturity securities	3,130,683	167,705	(2,375)	) 3,296,013
AFS equity securities	132,441	19,400	(459)	) 151,382
Total AFS securities	\$3,263,124	187,105	(2,834)	) 3,447,395

¹ CMBS includes government guaranteed agency securities with a fair value of \$35.5 million at September 30, 2013 and \$48.9 million at December 31, 2012.

² RMBS includes government guaranteed agency securities with a fair value of \$61.4 million at September 30, 2013 and \$91.0 million at December 31, 2012.

Table of Contents

Unrealized gains and losses of AFS securities represent fair value fluctuations from the later of: (i) the date a security is designated as AFS; or (ii) the date that an OTTI charge is recognized on an AFS security, through the date of the balance sheet. These unrealized gains and losses are recorded in AOCI on the Consolidated Balance Sheets.

(c) The following tables summarize, for all securities in a net unrealized/unrecognized loss position at September 30, 2013 and December 31, 2012, the fair value and gross pre-tax net unrealized/unrecognized loss by asset class and by length of time those securities have been in a net loss position:

September 30, 2013 (\$ in thousands)	Less than 12 months		12 months or longer	
	Fair Value	Unrealized Losses ¹	Fair Value	Unrealized Losses ¹
AFS securities				
U.S. government and government agencies	\$13,173	(327	) 510	(3
Foreign government	1,056	(12	) 2,925	(72
Obligations of states and political subdivisions	417,866	(16,610) —	—
Corporate securities	422,816	(14,200	) 3,837	(279
ABS	87,786	(471	) 302	(5
CMBS	69,322	(2,771	) 2,030	(492
RMBS	202,428	(6,231	) 1,579	(174
Total fixed maturity securities	1,214,447	(40,622	) 11,183	(1,025
Equity securities	35,275	(1,878) —	—
Subtotal	\$1,249,722	(42,500	) 11,183	(1,025

(\$ in thousands)	Less than 12 months			12 months or longer		
	Fair Value	Unrealized Losses ¹	Unrecognized Gains ²	Fair Value	Unrealized Losses ¹	Unrecognized Gains ²
HTM securities						
Obligations of states and political subdivisions	\$492	(20	) 19	571	(24	) 17
ABS	—	—	—	2,476	(690	) 642
Subtotal	\$492	(20	) 19	3,047	(714	) 659
Total AFS and HTM	\$1,250,214	(42,520	) 19	14,230	(1,739	) 659

December 31, 2012 (\$ in thousands)	Less than 12 months		12 months or longer	
	Fair Value	Unrealized Losses ¹	Fair Value	Unrealized Losses ¹
AFS securities				
U.S. government and government agencies	\$518	(1) —	—
Foreign government	—	—	2,871	(124
Obligations of states and political subdivisions	32,383	(327) —	—
Corporate securities	50,880	(402) —	—
ABS	9,137	(9) —	—
CMBS	7,637	(19	) 11,830	(1,197
RMBS	8,710	(59	) 5,035	(237
Total fixed maturity securities	109,265	(817	) 19,736	(1,558
Equity securities	15,901	(459) —	—
Subtotal	\$125,166	(1,276	) 19,736	(1,558

Table of Contents

(\$ in thousands)	Less than 12 months			12 months or longer		
	Fair Value	Unrealized Losses ¹	Unrecognized Gains ²	Fair Value	Unrealized Losses ¹	Unrecognized Gains ²
HTM securities						
Obligations of states and political subdivisions	\$1,218	(33	) 29	1,108	(47	) 38
ABS	—	—	—	2,860	(840	) 753
Subtotal	1,218	(33	) 29	3,968	(887	) 791
Total AFS and HTM	\$126,384	(1,309	) 29	23,704	(2,445	) 791

¹ Gross unrealized losses include non-OTTI unrealized amounts and OTTI losses recognized in AOCI. In addition, this column includes remaining unrealized gain or loss amounts on securities that were transferred to an HTM designation in the first quarter of 2009 for those securities that are in a net unrealized/unrecognized loss position.

² Unrecognized gains represent fair value fluctuations from the later of: (i) the date a security is designated as HTM; or (ii) the date that an OTTI charge is recognized on an HTM security.

As evidenced by the table below, our net unrealized/unrecognized loss positions increased by \$40.6 million as of September 30, 2013 compared to December 31, 2012 as follows:

(\$ in thousands) September 30, 2013			December 31, 2012		
Number of Issues	% of Market/Book	Unrealized/Unrecognized Loss	Number of Issues	% of Market/Book	Unrealized/Unrecognized Loss
501	80% - 99%	\$43,295	100	80% - 99%	\$2,701
—	60% - 79%	—	1	60% - 79%	233
1	40% - 59%	286	—	40% - 59%	—
—	20% - 39%	—	—	20% - 39%	—
—	0% - 19%	—	—	0% - 19%	—
		\$43,581			\$2,934

We have reviewed the securities in the tables above in accordance with our OTTI policy, as described in Note 2. "Summary of Significant Accounting Policies" in Item 8. "Financial Statements and Supplementary Data." of our 2012 Annual Report.

At September 30, 2013, we had 502 securities in an aggregate unrealized/unrecognized loss position of \$43.6 million, \$1.1 million of which have been in a loss position for more than 12 months. At December 31, 2012, we had 101 securities in an aggregate unrealized/unrecognized loss position of \$2.9 million, \$1.7 million of which had been in a loss position for more than 12 months. During Nine Months 2013, interest rates on the 10-year U.S. Treasury Note rose by 85 basis points. This interest rate movement has negatively impacted our fixed maturity securities portfolio's valuation, thus increasing the number of securities in a loss position and the corresponding dollar amount of unrealized losses. The increase in the unrealized losses does not correspond to any issuer specific credit concerns; however, it does reflect an expected reduction in market value due to higher market interest rates. For a discussion regarding the sensitivity of interest rate movements and the related impacts on the fixed maturity securities portfolio, refer to Item 7A. "Quantitative and Qualitative Disclosures About Market Risk" in our 2012 Annual Report.

We do not intend to sell any securities in an unrealized/unrecognized loss position, nor do we believe we will be required to sell these securities, and therefore we have concluded that they are temporarily impaired as of September 30, 2013. This conclusion reflects our current judgment as to the financial position and future prospects of

the entity that issued the investment security and underlying collateral. If our judgment about an individual security changes in the future, we may ultimately record a credit loss after having originally concluded that one did not exist, which could have a material impact on our net income and financial position in future periods.

Table of Contents

(d) Fixed maturity securities at September 30, 2013, by contractual maturity, are shown below. Mortgage-backed securities ("MBS") are included in the maturity tables using the estimated average life of each security. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations, with or without call or prepayment penalties.

Listed below are HTM fixed maturity securities at September 30, 2013:

(\$ in thousands)	Carrying Value	Fair Value
Due in one year or less	\$72,099	74,953
Due after one year through five years	312,318	331,927
Due after five years through 10 years	34,747	38,176
Due after 10 years	2,798	3,473
Total HTM fixed maturity securities	\$421,962	448,529

Listed below are AFS fixed maturity securities at September 30, 2013:

(\$ in thousands)	Fair Value
Due in one year or less	\$324,743
Due after one year through five years	1,951,770
Due after five years through 10 years	1,329,795
Due after 10 years	27,124
Total AFS fixed maturity securities	\$3,633,432

(e) The following table summarizes our other investment portfolio by strategy and the remaining commitment amount associated with each strategy:

Other Investments (\$ in thousands)	Carrying Value		September 30, 2013
	September 30, 2013	December 31, 2012	Remaining Commitment
Alternative Investments			
Secondary private equity	\$25,954	28,032	7,703
Private equity	18,951	18,344	10,502
Energy/power generation	17,049	18,640	7,076
Mezzanine financing	12,921	12,692	18,796
Real estate	12,385	11,751	10,205
Distressed debt	11,911	12,728	2,964
Venture capital	7,018	7,477	400
Total alternative investments	106,189	109,664	57,646
Other securities	1,884	4,412	1,289
Total other investments	\$108,073	114,076	58,935

For a description of our seven alternative investment strategies, as well as information regarding redemption, restrictions, and fund liquidations, refer to Note 5. "Investments" in Item 8. "Financial Statements and Supplementary Data." of our 2012 Annual Report.

Table of Contents

The following table sets forth aggregated summarized financial information for our other investments portfolio that is carried under the equity method of accounting. The last line of the table below reflects our share of the aggregate income, which is the portion included in our Financial Statements. As the majority of these investments report results to us on a quarter lag, the summarized financial statement information for the nine-month periods ended June 30 is as follows:

Income Statement Information (\$ in millions)	Quarter ended June 30,		Nine Months ended June 30,	
	2013	2012	2013	2012
Net investment income	\$97.8	80.0	352.8	170.1
Realized gains	162.8	19.6	762.5	1,004.9
Net change in unrealized depreciation	104.8	(117.1	) 85.9	(551.1
Net income (loss)	\$365.4	(17.5	) 1,201.2	623.9
Selective's insurance subsidiaries' other investments income	\$2.6	0.5	10.1	5.5

(f) At September 30, 2013, we had fixed maturity securities, with a carrying value of \$61.9 million, that were pledged as collateral for our outstanding borrowing of \$58.0 million with the Federal Home Loan Bank of Indianapolis ("FHLBI"). This outstanding borrowing is included in "Notes payable" on the Consolidated Balance Sheets. In accordance with the terms of our agreement with the FHLBI, we retain all rights regarding these securities, which are included in the "U.S. government and government agencies," "RMBS," and "CMBS" classifications of our AFS fixed maturity securities portfolio.

Also at September 30, 2013, we had fixed maturity securities, with a carrying value of \$21.3 million, and short-term investments with a carrying value of \$1.7 million, that collateralize reinsurance obligations related to our 2011 acquisition of our E&S book of business. Similar to the FHLBI collateral discussion above, we retain all rights regarding these investments. These fixed maturity securities are included in the "Municipal," "Corporate," "U.S. government and government agencies," "RMBS," and "ABS" classifications of our AFS fixed maturity securities portfolio.

In addition, fixed maturity securities with a carrying value of \$27.0 million were on deposit with various state and regulatory agencies to comply with insurance laws. We retain all rights regarding these securities, which are primarily included in the "U.S. government and government agencies" classification of our AFS fixed maturity securities portfolio.

(g) The components of net investment income earned for the periods indicated were as follows:

(\$ in thousands)	Quarter ended September 30,		Nine Months ended September 30,	
	2013	2012	2013	2012
Fixed maturity securities	\$30,569	30,839	90,956	93,948
Equity securities	1,341	1,268	4,422	3,785
Short-term investments	21	36	102	103
Other investments	2,639	497	10,110	5,460
Miscellaneous income	—	41	—	105
Investment expenses	(2,113	) (2,031	) (6,260	) (6,117
Net investment income earned	\$32,457	30,650	99,330	97,284

Net investment income before tax increased in both Third Quarter and Nine Months 2013 compared to the same periods last year, primarily due to higher income from our alternative investments. Partially offsetting this increase in Nine Months 2013 is a decrease in fixed maturity securities income due to lower investment yields than in the prior

year period.

(h) The following tables summarize OTTI by asset type for the periods indicated:

Third Quarter 2013 (\$ in thousands)	Gross	Included in Other Comprehensive Income ("OCI")	Recognized in Earnings
Equity securities	\$680	—	680
OTTI losses	\$680	—	680

12

Table of Contents

Third Quarter 2012 (\$ in thousands)	Gross	Included in OCI	Recognized in Earnings
AFS fixed maturity securities			
ABS	\$36	—	36
CMBS	(1,504	) (2,023	) 519
Total AFS fixed maturities	(1,468	) (2,023	) 555
Equity securities	2,389	—	2,389
OTTI losses	\$921	(2,023	) 2,944
Nine Months 2013 (\$ in thousands)	Gross	Included in OCI	Recognized in Earnings
HTM fixed maturity securities:			
ABS	\$(44	) (47	) 3
Total HTM fixed maturity securities	(44	) (47	) 3
AFS fixed maturity securities:			
RMBS	(22	) (30	) 8
Total AFS fixed maturity securities	(22	) (30	) 8
Equity securities	1,326	—	1,326
Total AFS securities	1,304	(30	) 1,334
Other investments	1,847	—	1,847
OTTI losses	\$3,107	(77	) 3,184
Nine Months 2012 (\$ in thousands)	Gross	Included in OCI	Recognized in Earnings
AFS fixed maturity securities			
ABS	\$98	—	98
CMBS	(1,396	) (2,023	) 627
RMBS	(44	) (218	) 174
Total AFS fixed maturity securities	(1,342	) (2,241	) 899
Equity securities	2,560	—	2,560
OTTI losses	\$1,218	(2,241	) 3,459

The majority of the OTTI charges in Nine Months 2013 relate to an investment in a limited liability company within our other investments portfolio that has sustained significant losses for which we do not anticipate recovery. In addition, OTTI charges on our equity portfolio include: (i) \$0.7 million recorded in Third Quarter 2013 on securities that we did not believe would recover in the near term; and (ii) \$0.6 million recorded within the first half of 2013 primarily related to securities for which we had the intent to sell. For a discussion of our evaluation for OTTI of fixed maturity securities, short-term investments, equity securities and other investments, refer to Note 2. "Summary of Significant Accounting Policies" in Item 8. "Financial Statements and Supplementary Data" of our 2012 Annual Report.

Table of Contents

The following tables set forth, for the periods indicated, credit loss impairments on fixed maturity securities for which a portion of the OTTI charge was recognized in OCI, and the corresponding changes in such amounts:

	Quarter ended September 30,	
(\$ in thousands)	2013	2012
Balance, beginning of period	\$7,488	6,775
Addition for the amount related to credit loss for which an OTTI was not previously recognized	—	—
Reductions for securities sold during the period	—	—
Reductions for securities for which the amount previously recognized in OCI was recognized in earnings because of intention or potential requirement to sell before recovery of amortized cost	—	—
Reductions for securities for which the entire amount previously recognized in OCI was recognized in earnings due to a decrease in cash flows expected	—	—
Additional increases to the amount related to credit loss for which an OTTI was previously recognized	—	519
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	—	—
Balance, end of period	\$7,488	7,294
	Nine Months ended September 30,	
(\$ in thousands)	2013	2012
Balance, beginning of period	\$7,477	6,602
Addition for the amount related to credit loss for which an OTTI was not previously recognized	—	—
Reductions for securities sold during the period	—	—
Reductions for securities for which the amount previously recognized in OCI was recognized in earnings because of intention or potential requirement to sell before recovery of amortized cost	—	—
Reductions for securities for which the entire amount previously recognized in OCI was recognized in earnings due to a decrease in cash flows expected	—	—
Additional increases to the amount related to credit loss for which an OTTI was previously recognized	11	692
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	—	—
Balance, end of period	\$7,488	7,294

(i) The components of net realized gains, excluding OTTI charges, for the periods indicated were as follows:

	Quarter ended September 30,		Nine Months ended September 30,	
(\$ in thousands)	2013	2012	2013	2012
HTM fixed maturity securities				
Gains	\$32	40	35	195
Losses	(37	) (90	) (86	) (196
AFS fixed maturity securities				
Gains	662	2,168	2,580	2,941
Losses	(31	) (262	) (330	) (379
AFS equity securities				
Gains	13,801	—	24,272	4,775
Losses	(236	) —	(407	) (428

Edgar Filing: SELECTIVE INSURANCE GROUP INC - Form 10-Q

Short-term investments					
Losses	—	—	—	(2)
Other Investments					
Gains	—	—	—	1	
Losses	(80	) —	(940) —	
Total other net realized investment gains	14,111	1,856	25,124	6,907	
Total OTTI charges recognized in earnings	(680	) (2,944	) (3,184	) (3,459)
Total net realized gains (losses)	\$13,431	(1,088	) 21,940	3,448	

Table of Contents

Realized gains and losses on the sale of investments are determined on the basis of the cost of the specific investments sold. Of the \$14.1 million and \$25.1 million in net realized gains in Third Quarter and Nine Months 2013, \$13.5 million and \$19.1 million, respectively, were related to the sale of AFS equity securities due to the rebalancing of our high-dividend yield strategy holdings within our equity portfolio. In addition, \$4.7 million in net realized gains in Nine Months 2013 related to the sale of a private equity security. Of the \$6.9 million of net realized gains in Nine Months 2012, \$4.3 million were related to the sale of AFS equity securities due to the rebalancing of our high dividend yield strategy holdings within our equity portfolio.

Proceeds from the sale of AFS securities were \$67.2 million in Third Quarter 2013 and \$116.3 million in Nine Months 2013, and \$55.0 million and \$150.9 million in the same periods a year ago.

NOTE 6. Fair Value Measurements

The following table presents the carrying amounts and estimated fair values of our financial instruments as of September 30, 2013 and December 31, 2012:

(\$ in thousands)	September 30, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Fixed maturity securities:				
HTM	\$421,962	448,529	554,069	594,661
AFS	3,633,432	3,633,432	3,296,013	3,296,013
Equity securities, AFS	180,506	180,506	151,382	151,382
Short-term investments	172,087	172,087	214,479	214,479
Receivable for proceeds related to sale of Selective HR Solution ("Selective HR")	—	—	2,705	2,705
Financial Liabilities				
Notes payable:				
2.90% borrowings from FHLBI	13,000	13,392	13,000	13,595
1.25% borrowings from FHLBI	45,000	45,171	45,000	45,590
7.50% Junior Notes	—	—	100,000	101,480
6.70% Senior Notes	99,492	100,200	99,475	107,707
7.25% Senior Notes	49,915	51,858	49,912	52,689
5.875% Senior Notes	185,000	153,550	—	—
Total notes payable	\$392,407	364,171	307,387	321,061

The fair values of our financial assets and liabilities are generated using various valuation techniques and are placed into the fair value hierarchy considering the following: (i) the highest priority is given to quoted prices in active markets for identical assets (Level 1); (ii) the next highest priority is given to quoted prices in markets that are not active or inputs that are observable either directly or indirectly, including quoted prices for similar assets in markets that are not active and other inputs that can be derived principally from, or corroborated by, observable market data for substantially the full term of the assets (Level 2); and (iii) the lowest priority is given to unobservable inputs supported by little or no market activity and that reflect our assumptions about the exit price, including assumptions that market participants would use in pricing the asset (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. Transfers between levels in the fair value hierarchy are recognized at the end of the reporting period.

For a discussion of the techniques used to value the majority of our financial assets and liabilities, refer to Note 2. "Summary of Significant Accounting Policies" in Item 8. "Financial Statements and Supplementary Data." of our 2012 Annual Report. The 5.875% Senior Notes were valued based on a quoted market price (Level 1). The fair value

at September 30, 2013 of the 6.70% Senior Notes due November 1, 2035 is based on a matrix pricing model prepared by an external pricing service due to the availability and nature of the pricing at the valuation date (Level 2).

Table of Contents

The following tables provide quantitative disclosures of our financial assets that were measured at fair value at September 30, 2013 and December 31, 2012:

September 30, 2013		Fair Value Measurements Using Quoted Prices in		
(\$ in thousands)	Assets Measured at Fair Value at 9/30/13	Active	Significant Other	Significant
		Markets for Identical Assets/Liabilities (Level 1) ¹	Observable Inputs (Level 2) ¹	Unobservable Inputs (Level 3)
Description				
Measured on a recurring basis:				
AFS:				
U.S. government and government agencies	\$ 180,786	50,871	129,915	—
Foreign government	29,709	—	29,709	—
Obligations of states and political subdivisions	929,498	—	929,498	—
Corporate securities	1,663,151	—	1,663,151	—
ABS	150,766	—	144,804	5,962
CMBS	151,948	—	150,339	1,609
RMBS	527,574	—	527,574	—
Total AFS fixed maturity securities	3,633,432	50,871	3,574,990	7,571
Equity securities	180,506	177,606	—	2,900
Short-term investments	172,087	172,087	—	—
Total assets	\$3,986,025	400,564	3,574,990	10,471

¹There were no transfers of securities between Level 1 and Level 2.

December 31, 2012		Fair Value Measurements Using Quoted Prices in		
(\$ in thousands)	Assets Measured at Fair Value at 12/31/12	Active	Significant Other	Significant
		Markets for Identical Assets/Liabilities (Level 1) ¹	Observable Inputs (Level 2) ¹	Unobservable Inputs (Level 3)
Description				
Measured on a recurring basis:				
AFS:				
U.S. government and government agencies	\$259,092	115,861	123,442	19,789
Foreign government	30,229	—	30,229	—
Obligations of states and political subdivisions	818,024	—	818,024	—
Corporate securities	1,450,247	—	1,447,301	2,946
ABS	128,640	—	122,572	6,068
CMBS	137,119	—	129,957	7,162
RMBS	472,662	—	472,662	—
Total AFS fixed maturity securities	3,296,013	115,861	3,144,187	35,965
Equity securities	151,382	147,775	—	3,607

Edgar Filing: SELECTIVE INSURANCE GROUP INC - Form 10-Q

Short-term investments	214,479	214,479	—	—
Receivable for proceeds related to sale of Selective HR	2,705	—	—	2,705
Total assets	\$3,664,579	478,115	3,144,187	42,277

¹ There were no transfers of securities between Level 1 and Level 2.

Table of Contents

The following tables provide a summary of the changes in the fair value of securities measured using Level 3 inputs and related quantitative information for the periods ended September 30, 2013 and December 31, 2012:

September 30, 2013

(\$ in thousands)	Government	Corporate	ABS	CMBS	Equity	Receivable for Proceeds Related to Sale of Selective HR	Total
Fair value, December 31, 2012	\$19,789	2,946	6,068	7,162	3,607	2,705	42,277
Total net (losses) gains for the period included in:							
OCI ¹	(537	) (7	) (106	) 681	3,935	—	3,966
Net income ^{2,3}	(76	) —	—	354	—	(1,480	) (1,202
Purchases	—	—	—	—	—	—	—
Sales	—	—	—	—	—	—	—
Issuances	—	—	—	—	—	—	—
Settlements	(1,847	) (168	) —	(1,603	) —	(225	) (3,843
Transfers into Level 3	—	—	—	—	—	—	—
Transfers out of Level 3	(17,329	) (2,771	) —	(4,985	) (4,642	) (1,000	) (30,727
Fair value, September 30, 2013	\$—	—	5,962	1,609	2,900	—	10,471

¹ Amounts are reported in “Unrealized holding gains (losses) arising during period” on the Unaudited Consolidated Statements of Comprehensive Income.

² Amounts are reported in “Net realized gains (losses)” for realized gains and “Net investment income earned” for amortization of securities on the Unaudited Consolidated Statements of Income.

³ For the receivable related to the sale of Selective HR, amounts in “Loss on disposal of discontinued operations, net of tax” relate to an impairment charge and amounts in “Other income” relate to interest accretion on the Unaudited Consolidated Statements of Income.

December 31, 2012

(\$ in thousands)	Government	Corporate	ABS	CMBS	Equity	Receivable for Proceeds Related to Sale of Selective HR	Total
Fair value, December 31, 2011	\$21,741	2,603	—	354	—	3,212	27,910
Total net (losses) gains for the period included in:							
OCI ¹	(22	) 185	68	858	—	—	1,089
Net income ^{2,3}	(193	) —	—	(51	) —	244	—
Purchases	—	—	7,300	5,611	—	—	12,911
Sales	—	—	—	—	—	—	—
Issuances	—	—	—	—	—	—	—
Settlements	(1,737	) (630	) —	(624	) —	(751	) (3,742
Transfers into Level 3	—	788	—	8,247	3,607	—	12,642

Transfers out of Level 3	—	—	(1,300)	(7,233)	—	—	(8,533)
Fair value, December 31, 2012	\$ 19,789	2,946	6,068	7,162	3,607	2,705	42,277

¹ Amounts are reported in “Unrealized holding gains arising during period” on the Consolidated Statements of Comprehensive Income in our 2012 Annual Report.

² Amounts are reported in “Net realized gains (losses)” for realized gains and losses and “Net investment income earned” for amortization for the CMBS securities on the Consolidated Statements of Income in our 2012 Annual Report.

³ Amounts are reported in “Other income” for the receivable related to the sale of Selective HR on the Consolidated Statements of Income in our 2012 Annual Report and are related to interest accretion on the receivable.

As discussed in Note 2. "Summary of Significant Accounting Policies," in Item 8. "Financial Statements and Supplementary Data." in our 2012 Annual Report, the fair value of our Level 3 fixed maturity securities is typically obtained through non-binding broker quotes based on unobservable inputs, which we review for reasonableness. At September 30, 2013 and December 31, 2012, fixed maturity securities with aggregate fair values of \$7.6 million and \$36.0 million, respectively, were measured using Level 3 inputs primarily due to the availability and nature of the pricing used at the valuation dates.

During Nine Months 2013, fixed maturity securities with an aggregate fair value of \$25.1 million were transferred out of Level 3 due to the availability of Level 2 pricing that was not available previously.

Table of Contents

In 2012, fixed maturity securities with a fair value of \$9.0 million were transferred into Level 3 during the year. These transfers were primarily related to securities that had been previously priced using Level 2 inputs, but due to the availability and nature of the pricing used at the valuation dates, were priced using Level 3 inputs at December 31, 2012. In addition, certain of these transfers related to securities that had previously been classified as HTM, and therefore not measured at fair value, for which available pricing at December 31, 2012 used Level 3 inputs. Securities with a fair value of \$8.5 million were transferred out of Level 3 due to the availability of Level 2 pricing at December 31, 2012 that was not available previously.

Equity securities with fair values of \$2.9 million and \$3.6 million were measured using Level 3 inputs at September 30, 2013 and December 31, 2012, respectively. During 2012, two non-publicly traded equity securities were transferred into Level 3 due to the nature of the quotes used at the valuation date. One of these securities was transferred out of Level 3 and into Level 2 at March 31, 2013, as the pricing as of that date was based on a quoted price in an inactive market. This security was subsequently sold in the second quarter of 2013 for an amount that approximated the March 31, 2013 value. At each reporting date, we review the fair value of the remaining Level 3 security for reasonableness.

At December 31, 2012, the receivable related to the sale of Selective HR was contingent on the purchaser's ability to retain business subsequent to the sale. At that time, the fair value of this receivable was measured using unobservable inputs, the most significant of which was our assumption regarding the retention of business. In the first quarter of 2013, we reached an agreement with the purchaser to settle this receivable for an aggregate of \$1.0 million, which was paid in two installments. As a result, the receivable was transferred out of Level 3. See Note 12. "Discontinued Operations" of this Form 10-Q for a discussion of the impairment charge that was recorded on this receivable in the first quarter of 2013.

Table of Contents

The following tables provide quantitative information regarding our financial assets and liabilities that were disclosed at fair value at September 30, 2013 and December 31, 2012:

September 30, 2013

(\$ in thousands)	Assets/ Liabilities Disclosed at Fair Value at 9/30/2013	Fair Value Measurements Using Quoted Prices in		
		Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
HTM:				
Foreign government	\$5,565	—	5,565	—
Obligations of states and political subdivisions	395,643	—	395,643	—
Corporate securities	31,777	—	31,777	—
ABS	5,911	—	4,854	1,057
CMBS	9,633	—	9,633	—
Total HTM fixed maturity securities	\$448,529	—	447,472	1,057

Financial Liabilities**Notes payable:**

2.90% borrowings from FHLBI	\$13,392	—	13,392	—
1.25% borrowings from FHLBI	45,171	—	45,171	—
6.70% Senior Notes	100,200	—	100,200	—
7.25% Senior Notes	51,858	—	51,858	—
5.875% Senior Notes	153,550	153,550	—	—
Total notes payable	\$364,171	153,550	210,621	—

December 31, 2012

(\$ in thousands)	Assets/ Liabilities Disclosed at Fair Value at 12/31/2012	Fair Value Measurements Using Quoted Prices in		
		Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
HTM:				
Foreign government	\$5,871	—	5,871	—
Obligations of states and political subdivisions	526,922	—	526,922	—
Corporate securities	42,121	—	37,289	4,832
ABS	7,097	—	5,698	1,399
CMBS	12,650	—	12,650	—
Total HTM fixed maturity securities	\$594,661	—	588,430	6,231
Financial Liabilities				
Notes payable:				
2.90% borrowings from FHLBI	\$13,595	—	13,595	—
1.25% borrowings from FHLBI	45,590	—	45,590	—
7.50% Junior Notes	101,480	101,480	—	—

Edgar Filing: SELECTIVE INSURANCE GROUP INC - Form 10-Q

6.70% Senior Notes	107,707	107,707	—	—
7.25% Senior Notes	52,689	—	52,689	—
Total notes payable	\$321,061	209,187	111,874	—

19

Table of Contents

NOTE 7. Reinsurance

The following table contains a listing of direct, assumed, and ceded reinsurance amounts for premiums written, premiums earned, and loss and loss expenses incurred for the periods indicated. For more information concerning reinsurance, refer to Note 8. "Reinsurance" in Item 8. "Financial Statements and Supplementary Data." of our 2012 Annual Report.

(\$ in thousands)	Quarter ended September 30,		Nine Months ended September 30,	
	2013	2012	2013	2012
Premiums written:				
Direct	\$570,849	520,943	1,650,855	1,504,429
Assumed	22,053	17,976	34,913	44,712
Ceded	(100,154	) (88,401	) (280,719	) (252,888
Net	\$492,748	450,518	1,405,049	1,296,253
Premiums earned:				
Direct	\$518,307	474,055	1,516,454	1,389,373
Assumed	11,066	18,595	32,480	49,683
Ceded	(91,805	) (86,425	) (264,174	) (261,790
Net	\$437,568	406,225	1,284,760	1,177,266
Loss and loss expense incurred:				
Direct	\$350,648	327,883	1,055,248	881,537
Assumed	7,264	13,970	22,758	35,039
Ceded	(74,595	) (69,602	) (245,246	) (103,516
Net	\$283,317	272,251	832,760	813,060

The growth in direct premium written ("DPW") for our ten insurance subsidiaries ("Insurance Subsidiaries") in both Third Quarter and Nine Months 2013 compared to Third Quarter and Nine Months 2012 reflects: (i) pure price increases that we have achieved in our Standard Insurance Operations; and (ii) strong retention in our Standard Insurance Operations.

Direct premiums earned increases in Third Quarter and Nine Months 2013 were consistent with the fluctuation in DPW for the twelve-month period ended September 30, 2013 as compared to the twelve-month period ended September 30, 2012.

Assumed premiums written for Nine Months 2013 decreased compared to the same period last year as E&S business, which was previously written through a reinsurance fronting agreement, is now written directly by our Insurance Subsidiaries. Decreases in assumed premiums earned in Third Quarter and Nine Months 2013 compared to Third Quarter and Nine Months 2012 were driven by the E&S premiums.

Direct loss and loss expense incurred in Nine Months 2013 included an increase of approximately \$128 million related to flood losses covered under the NFIP for Hurricane Sandy, which occurred in October 2012. Total estimated gross flood losses covered by the Insurance Subsidiaries' WYO policies under the NFIP program for this storm were \$1,179 million at September 30, 2013 and \$1,052 million at December 31, 2012, of which approximately \$1,148 million was paid through September 30, 2013.

As all flood losses are fully ceded under the NFIP, the increase in direct loss and loss expense drives the corresponding increase in our ceded losses.

The ceded premiums and losses related to our participation in the NFIP, under which 100% of our flood premiums, losses, and loss expenses are ceded to the NFIP, are as follows:

NFIP (\$ in thousands)	Quarter ended September 30,		Nine Months ended September 30,	
	2013	2012	2013	2012

Edgar Filing: SELECTIVE INSURANCE GROUP INC - Form 10-Q

Ceded premiums written	\$(64,196	) (58,923	) (183,364	) (171,172)
Ceded premiums earned	(57,920	) (53,222	) (169,697	) (157,895)
Ceded loss and loss expense incurred	(34,879	) (32,702	) (162,780	) (24,534)

20

Table of Contents

NOTE 8. Segment Information

The results of our three operating segments are used by senior management to manage our operations. These segments are evaluated based on the following:

Our Standard Insurance Operations segment and our E&S Insurance Operations segment are evaluated based on statutory underwriting results (net premiums earned, incurred loss and loss expenses, policyholders dividends, policy acquisition costs, and other underwriting expenses), and statutory combined ratios; and

Our Investments segment is evaluated based on net investment income and net realized gains and losses.

In computing the results of each segment, we do not make adjustments for interest expense, net general corporate expenses, or federal income taxes. We do not maintain separate investment portfolios for the segments and therefore, do not allocate assets to the segments.

The following summaries present revenues from continuing operations (net investment income and net realized gains on investments in the case of the Investments segment) and pre-tax income from continuing operations for the individual segments:

Revenue by Segment (\$ in thousands)	Quarter ended September 30,		Nine Months ended September 30,	
	2013	2012	2013	2012
Standard Insurance Operations:				
Net premiums earned:				
Commercial automobile	\$79,138	72,758	230,191	214,782
Workers compensation	66,510	65,592	197,449	198,064
General liability	100,925	93,763	298,394	276,538
Commercial property	57,004	52,197	165,356	151,945
Businessowners' policies	19,629	17,749	56,794	51,872
Bonds	4,705	4,713	14,244	14,076
Other	3,051	2,921	9,036	9,202
Total standard Commercial Lines	330,962	309,693	971,464	