Jennifer: Good afternoon, welcome to Selective's 2009 Investor Day. We're really happy you were all able to come out this afternoon and join us for a good afternoon since we've got 7 or 8, about 8 people from Selective are going to give you some presentations and we also have an agency panel today. We're really glad you were able to come out.

So I'd like to start out with a couple of housekeeping items. If you could please turn off your cell phones and BlackBerries. We don't want it to interfere with our microphones. Are we good? No, do you want to switch? Okay. All right, well, you'll hear every other word then, those of you on the webcast. But if we could turn off cell phones and BlackBerries, it would be helpful. We do want those who are listening in via webcast to be able to hear us.

I also want to point out that you will be receiving an email this evening or tomorrow morning from an outside firm that they have a little bit of a survey for you to fill out regarding events today. Appreciate it if you would fill those out and send them back so we have the feedback. We really do want your feedback.

I also need to remind you that we will be making forward-looking statements…as defined by the Private Securities Litigation Reform Act of 1995. And we…SEC filings on Form 10-K for a comprehensive list of the risk factors as relates to any forward-looking statements we may make. I think we're doing a switcheroo – hold on. Can you hear me? Are we on?

All right, well, I want to run through briefly the agenda for this afternoon. As I said, it's a full afternoon. We're going to start out with an overview from Greg Murphy, our CEO, who is going to give you a high-level overview of all the strategies we put into place here at Selective, for long-term out performance. And we're going to have John Marchioni who is our Chief Underwriting and Field Operations Officer. He'll talk to you about our agency relationships, which are the best relationships there are. We have 940 independent agents that we work with and those relationships, in combination with our field model, really does differentiate Selective in the marketplace and we think that that will come through today. Brenda Hall who works in John's operation is – to talk to us about how we take all the data that we as an organization…and we're actually taking that and culminating it into information, information that helps us drive results, both on the underwriting side and on the backend in monitoring and measuring our results. Still having a little issue, I think, with the mic. Allen Anderson who is our Senior Vice President of Personal Lines is going to talk to you about why Selective chooses to write personal lines and the strategies that we have around that to drive profitability. As we move forward into 2010, we do anticipate to be profitable in that operation.

We're going to take a break, so then you can put your BlackBerries back on and check in and see what's going on at the office. We also are going to have some demonstrations next door for some of our information technology that Brenda is going to describe when she does her presentation. So please take advantage of that also at the break, and then at the end of our reception you'll have an opportunity to talk to some of the people next door.

When we come back, we are going to have an agency panel. One of the things that often gets asked of me is an opportunity to be able to speak to our independent agents. So we've assembled four of our finest agents here today and they represent all different geographic regions of Selective, as well as tenure with Selective. We have Gary Berger who is here from Maryland, HMS in Maryland, long-time agent with Selective. We have Jerry Niewiek from Michigan. Jerry joined us in the mid '90s when we expanded to the Midwest and he's been with us since then. We have David Pruett who is from North Carolina. David ran a small independent agent that was acquired by BB&T, so he represents the aggregator of agents that we work with. And then we have a relatively new agent, we have Mark Levine from Massachusetts, from Eastern Insurance. We entered Massachusetts in 2007 for commercial lines, so we've had an 18-month relationship that's been very successful on his end as well as ours. And we really think this is a great opportunity for you to hear them talk about the industry, talk about regionals and how that plays in their independent agents, as well as the relationship they have with Selective. And we're going to provide you with an opportunity too towards the end of the panel to ask questions of our agents. So please take advantage of that, they'll be around at the break as well as at the reception at the end of the day.

When we're done with the panel, we're going to have Mary Porter who is our Chief Claims Officer. She's going to talk to us about our excellent claims organization and all the initiatives that we have in place to make it even better. Dale Thatcher, our CFO, will talk to us about our enterprise risk management efforts, as well as providing some financial highlights. And we have Kerry Guthrie, our Chief Investment Officer, here today, who is going to talk to you about our long-term investment strategy, but also about how we're handling the current market cycle and the turmoil that's going on there, so you'll be hearing about that from Kerry. We're going to bring it back together at the end with Greg and then we'll have an open Q&A and you can ask questions of anybody who has participated here today, as well as we have some additional members of the Executive Management Team that I'd like to introduce to you.

We have Mike Lanza who is our General Counsel. There he is, he can wave. Ron Zaleski, our Chief Actuary. Richard Connell who is our Chief Administrative Officer and head of our Information Technology, and Steven Woods who is our

HR Officer. We also have a member of our Board of Directors here today, Brian Thebault. So he's somewhere in the – there he is. Hi Brian.

Now I'd like to turn it over to Greg Murphy who will talk to you about our strategy, thank you.

Greg: Thank you Jennifer. Hopefully my mic works better than yours did. And really, there are three things that I want to talk to you today about. First of all, is that okay, the volume all right? So there's three things I want to talk to you about that are going to drive long-term shareholder value. The first is, our superior field model. And what you have to really garner from that is many companies have tried to copy it, but no one has really successfully replicated it in the marketplace. The two companies that really have a good field model are really us and Cincinnati Financial. The second then is our best-in-class independent agents. You've always heard me say that we have 940 independent agents and they truly represent the ivy league of independent agents in the marketplace. And the third is, you've heard me say before that this industry is data rich but information poor. What we're going to talk to you about is how we're using information now to make much better decisions in a real-time environment, and all three of these things are going to drive long-term shareholder value.

So the first thing I want to kind of show is our combined ratio. This is commercial lines. Obviously, we're showing your commercial lines because 85 percent, approximately 85 percent of our business is in the commercial lines area, and what you can see is us relative to the industry. You can see pretty consistent out-performance. Generally we've out performed the industry by about 3.5 points in that 16-year duration. And although we didn't outperform in 2006 and 7, that was due to the abnormally low CAT years that the industry experienced. You've got to understand, CATs for us, generally are only a point, point and a half, for the industry they run more in the four point range. So when they don't happen, it makes a big difference on performance. But what you're going to hear about today, really from John, Brenda and Mary, are about what we're doing to lower our loss ratio long term in the marketplace and the things that will make us more competitive as we move forward.

From a premium growth standpoint, Selective has had a great track record of growth. I can see – you can see the tough market that's happened in the last few years, but our growth rate has been, in that 16-year time period, just under 9 percent. And another way to look at it, it took us 8 years to double our commercial lines premium, so we did double our commercial lines premium in an 8-year duration in the marketplace. And if you looked at us relative to the industry, we've consistently outperformed the industry. We're about 4.5 points better – have grown at a higher rate than the industry by almost 4.5 points during that 16-year time period.

So a little bit about who we are. Selective is a high-tech, high-touch company. We do business through 940 relationship agents for both personal and commercial lines in 22 states. We don't do personal lines in every one of those states, but obviously do commercial lines in all 22 states. We deploy best-in-class technology that makes it easy for agents to do business with us, and obviously why we garner a bigger, what we call inside our agencies, a bigger share of wallet than most of the competition in the marketplace overall.

And in these tough markets, it's really all about balance. It's about balancing growth with profitability, and I think that's an important issue that you're going to hear throughout the course of the day. And when you think about where we're going as an organization in strategy, strategy is about capturing and creating value in the marketplace. It's also about managing information to make better, long-term profitable decisions in your book of business. So how do you get the most granular pricing information, how do you understand your renewal book and how do you want to manage that renewal book in an opportunity where prices are moving higher, and overall, what are your competitive, sustainable advantages in the marketplace? And I think that's an important aspect to understand. Where are your competitive advantages and how do you stack up against the competition? And that's something that we really look at and we really measure ourselves against two distinct markets. We look at the national markets and then we look at the regional markets.

Now understand that this is a self-created report card, but I think it's important for you to get the distinctions between how we view national carriers versus regional carriers and where we think our advantage is in terms of years. So let's look at the first thing, relationships. And you have a great opportunity here today to talk to four ivy league independent agencies that can tell you how much relationship matters to then as to where they place their best business and where do they want to grow inside their agency with certain specific carriers. So we look at the relationship of the field model as two very unique things that we do in the marketplace, and we put a three to five-year advantage against the competition. Many other companies tell you they're doing field underwriting, but they're not. They are sending a rep out to look at business, but they do not have underwriting authority to write that business, and that is the distinction between legitimate field underwriting and just sending a field rep out with donuts and coffee and other things, that does not put business on the books.

The other thing that we kind of look at, some of the services that differentiate us as a company are safety management. We have about 75 safety management folks out there to distinguish our agencies and we feel that we're basically on par, are slightly behind maybe some of the services that a national carrier would offer, we're way ahead of the regional markets, and then obviously from an ability to execute, we feel that we're much more nimble in the marketplace and can respond to opportunities. And that's really one of the hallmarks of our success.

Then when we look at the next three down, the predictive modeling from a personal lines and commercial lines, we feel we are on par with the nationals, way ahead of the regional carriers in the marketplace today and then obviously, small business straight through processing, on par with the nationals, way ahead of the regionals. And these are things that I want you to remember when we start to look at some of our business segments and our opportunity to grow on a greenfield basis, you've got to remember these kind of factors when we talk about it, but generally have somewhere between a one and three-year advantage in terms of years of an advantage.

When we look at some of the other factors then, technology, agency integration, we were ahead of the nationals, ahead of the regionals and I will tell you, our technological competition is Travelers, Hartford and Zurich. And who won the integration awards from AMS and Applied? Selective did, not Hartford, not Travelers, not Zurich. So when you think about our technological competition and where we are in that space, we're the company that's winning the awards from those major agency vendors and I think that's important for you to understand that distinction. Because we hear a lot about technology, but we're the ones winning the technological award.

And then in terms of self-service, this is an area where we feel we need to get better. It's a strategy that we have to get our agencies open, more in a 24-hourish environment. We feel we're behind the nationals on that front, but way ahead of the regional carriers. And again, this is to get the…open in a more – more than just 8 to 4 or 9 to 5 kind of timeframe.

And then obviously, information management, we feel that we're on par with the nationals, way ahead with regionals in a one to three-year kind of venue. Brenda is going to show you some of that capability in terms of the decision support tools and other tools that we have that we feel we're way ahead of both the nationals and the regionals. One to three years doesn't sound like a lot, but you try to get it done. And that is a big advantage from our standpoint in terms of the tools that we have to disaggregate our business, segment it. We're really going through a lot of ways to differently look at our book of business and harvest different decisions over the long term.

So when you think about strategy and greenfield growth opportunities, if you look at the overall personal lines apace, it's about $229 billion of opportunity in the marketplace. Independent agents control about 35 percent of that market share, or approximately $80 billion overall. And then when you look at how much independent agents control, they write 52 of the 80 billion. So think about it, they control – regional carriers control 65 percent of the independent agent business for personal lines. But you look at it overall, they control about 23 percent of the overall market. So this is a great opportunity for us to continue to take share from, in some cases, the national carriers -- as Travelers just went direct. I'm sure you heard about that. That's an opportunity for us inside some of our agents, as well as looking at some of the captive agencies out there are other opportunities for us to grow our market share.

When you think about the personal lines space and the way we look at it, we sub-segment that. There's about $115 billion in our 22 states that we view as an opportunity for Selective. And you sit there and say, well, what's most critical in how that business is placed? Because I think it's important for you to put your place, put yourself in the place of an agency and how they place their business, because I think that will give you some guiding light over the long term as to where market share will continue to move. I think that's an important point of distinction. So when you think about inside an agency, the personal lines business really produced by the CSR, and it's going through the path of least resistance. And so whoever is easy to do business with is the one that's getting those opportunities.

And the keys to success though, not anybody could just walk into one of these agents and say, here, I want to personal lines appointment tomorrow. It starts with having a relationship. It's part of getting in the game. And then obviously you've got to have, really, operational and technological efficiency. You've got to have the automated pricing tools and you've got to have pricing precision. So you've got to be able to have a pricing tool that covers a substantial part of the market, so they know that they can quote with you and write and be successful at probably 70 to 80 percent of the time. And that's really what we're trying to do as an organization.

So when we step back now and look at the commercial lines space, the overall size of the commercial lines market and its entirety is about $260 billion of premium. And then when you think about what the independent agents control, they dominate this space. So these three folks here, they dominate the commercial lines space. They write about 80 percent of the commercial lines business that's produced in the marketplace, comes through an agency like you see here today, are really what's driving that production. When you look at the regional carriers, the regional carriers wrote $83 billion of that, or they wrote about 32 percent of the entire $260 billion market overall. And that was through 2007. But you'd look at it and regional carriers have increased the market share by 20 percent in the last 10 years. So regional carriers have grown from 27 percent of the market to 32 percent of the market. And you have to sit there and say, why is that? You need to answer that question. Why did regional carriers increase market share by 20 percent? And that is because this is a relationship business – as much as other people may tell you it's not, then why are regional carriers growing share at the expense of the national carriers in the marketplace overall?

And so I think that's a great kind of jumping off point to look at how we also look at the market in terms of greenfield growth opportunities in terms of the states that we're in. As you know, we're in 22 states for commercial lines. We're in about 9ish or 10 states overall for personal lines. But you can see, here are our top five states and there is about, in the total, about $122 billion of premium in those states for commercial lines. We write a 1-1 share of the market. We go from a high in New Jersey of a 4-4 share, all the way down in terms of you could see where we are in Maryland, Rhode Island, Pennsylvania, and New York. But we feel that we could clearly get to about a 5 share in the market and we think that that is a good greenfield market share for us to control. And at that point, we'd be about a $6 billion company. So the point that we're showing you here is that we don't necessarily need to add a lot of states to be able to get to the next – the next opportunity for us, which is to take our commercial lines from $1.3 billion and grow it into the 3, 3.5 billion. But when you look at it this way, just from a state coverage standpoint, we could get to 6 billion at just the 5 share in the states that we're in.

Let's look at it another way. And this is the way we really manage our business is really what we call share of wallet. So we look at every one of our agents and we know how much commercial lines business they produce as an agency, and then we know how much we are of that total and then we measure that, what we call share of wallet. And we view long-term success is when we've been in an agent for five years, we want to see our position be the number one, the number two, or the number three slot inside that agency. So when you look at our share of wallets, in New Jersey we run almost a 14 share, in Rhode Island we're almost a 19 share, Pennsylvania we're about 11 share and so what we have next to that then is how much our agents have in commercial lines business overall. And they write about $19 billion of premium, or 940 agencies write that amount of premium, which says something about our 940 agencies overall. And then if we sat there, we said, well, what would be a reasonable share of wallet, we feel a reasonable share of wallet would be like an 18 share. So if we could sit there and say at every one of our agents we want to be an 18 share, we would get to about $3.5 billion. So look at it, it's another way to look at market share opportunity, greenfield growth capability to get where you want to be, that's how we kind of look at it.

And then we also look at the market as three distinct opportunities and three separate segmentations. The first one we look at is small business. And the small business is up to 25,000. In our 22 – there's plenty of seats, come on in. If they -- our 22 states, there is about $23 billion small business in our 22 states that we are in today. And then look at the middle market. The middle market goes from

25,000 up to 250,000. In that area, there's about $54 billion. Well, you know, when you add those two together, that's about $77 billion of opportunity. If we were a 5 share of that, we'd be about 4 billion. Again, so another way to look at the market opportunity. These are our strongest segments today, small and the middle market are where we're really the strongest. We are obviously focused on the large account area, but that's probably the most price competitive cutthroat end of the market as you can ever imagine, is the large account. For us, large account isn't really even all that large, it runs up to $1million. So we really focus on that 250 up to 1 million is in our large account unit. And this represents approximately 10 percent of our overall premium in the large account unit, and is not really our overall strongest segment that we play in. But again, another way that we look at opportunity going forward. So what we wanted to do is kind of dial in for you – and these are some things that you can then really ask our agents in terms of their view of it in the marketplace.

So we wanted to talk to you about the small, medium and large. So let's focus first on the small. Let's understand how the small is produced and the motivation for generating that business and where it goes. So let's make sure we understand that. Generally, inside some agencies produced by the CSR, could be done by the producer in some agencies, could be a small business market manager. Whatever it is, that's how that business is produced. A lot of agents don't pay compensation to that business at that level. So it's all what they refer to as a house account. And that business flows through the path of least resistance. Small business is like water. It flows through the path of least resistance.

And then you sit there and go, how is it that we measure our success in the marketplace? Again, you have to have a relationship to get in the game. So somebody's not just coming to one of these agents saying, hey, I want to write your small business, but I don't want to do anything else for you. You've got to have a relationship to get in the game. And then obviously you've got to have systems that directly connect inside these agency systems, so they can make those transactions happen seamlessly. It's about eliminating rework, because rework inside an agency costs the agents profit margin. And then obviously you've got to have strong templates that are backed up with good predictive modeling, that give a lot of granular pricing capability so we can deliver the best price to the customer. We have to build out insured self-services and you've got to broaden out your underwriting appetite.

So this is an area where we continue to broaden out the number of products that fit into this small business product, so we can write more and more business and grow our premium that we now measure as about 30 percent of our overall company of commercial lines business fits this small – this mantra, and then when we go look at how we measure success. So we now measure success in this space as how much premium we produce per day. I'd like to get it per second, but it's per day. And the thing, what's measured gets monitored and you go back and look at 2004, we were generating $125,000 a day in small business. And yet, you think, well, why is that? We have great relationships with our agents, why weren't we getting that business? Well, maybe we weren't the easiest company to do business with. Maybe we didn't have the good templates to do what we needed to get done, and maybe we've got a hum in this thing that we need to fix. How's that? So you think about that and now you've gone from there – now I'll try this spot. Eventually I'll be in the middle. So we've gone from $125,000 a day, to just under $275,000 a day in 2008. And you sit there and say, well, what does $275,000 a day mean? That's $70 million of business a year generated through just small opportunities that you're carving out in every one of your agencies. And you look at what we've done in the first two months of the year, we've now increased that to 280 – I'm sorry, we grew it at a compound annual growth rate of 22 percent overall. When you look at the amount of business that we produced per day in the first two months of the year, that's at now $283,000 of business per day. And the goal is to continue to increase that size day in and day out. And when you look at the profitability of this business, it runs about 1.5 points better in retention in terms of accounts over the $25,000 sector. It has a profitability that's about 2.5 points better on a 3-year loss ratio than business over 25,000. It also has a lower expense ratio because it's more efficient to produce, and then on top of that, it's less price sensitive. So the amount of rate mods that we have to give up on it are less than accounts over 25,000. So it's got a better retention, a better loss ratio, it's less price sensitive and this is an area where we want to continue to grow our market share with our agents in the small business arena.

When we talk about middle market now, that's a $54 billion opportunity. Need to understand, that's produced differently than the small. That's produced by producers that are hired by these agents to go out and find new opportunities and write accounts. They also can be produced and sent up to a general marketing manager that will market out the accounts where they feel they would be best served in the marketplace today.

And then you sit there and say, what are the keys to success there? Well, it really focuses around our high-tech, high-touch model where our AMS is showing up in these agents offices once a week, twice a week, whatever it is, the schedule that they're there, they have the full underwriting authority to write the business, whether it's in the agent's office or in the customer's office, in the end customer's office, they could do that. And they're backed by systems that directly integrate into the agent. So if the agent has a big policy with a big schedule of vehicles or property, they can seamlessly move that to us in a matter of minutes and get a quote on that account.

And then obviously from our standpoint, pricing that's backed up by predicted modeling and that we can deliver the most granular price to the customer and obviously we want to write that account and retain it for the long term. And then also our customized and comprehensive safety management solutions, as well as we continue to expand out the product capability in this. This is an area of the market that we feel if we're going to get to an 18 share of wallet inside our agents, we have to start to expand the number of products that we put out to our agency plant so we could get to that 18 share overall.

So what it really starts with is our AMS, they're the key, the linchpin to our success in this model. We measure success on their part in terms of their compensation, which is based on growth and profitability. There are no growth-only bonuses in the company. They're solely based on profitable growth overall. And then obviously we back that with our strategic business units that are our corporate underwriting and they are really – they're four core groups in there. There's the construction group, the specialty, the MERC, as well as the manufacturing. They're responsible for the product, product development. They also look at the underwriting guidelines that they've put out there, what's not a market, what's not an appetite and they really kind of set the tone for how we want to push our product out through our 22 states. And that helps us get this matrix-style management of our business overall.

Let's focus on the larger accounts now, which is accounts over $250,000. It's about a $21 billion opportunity for us in the 22 states. And these really are our accounts that are controlled by the agents here, or a customer that's looking for really a customized solution that the agent feels like they could create a program for them specifically. From us, the keys to success is the ability to create customized opportunities, whether it's on a safety management side where we do not charge for safety management services. We offer a wide depth and breadth of product capability in there and the fact that we have a field claim person now that can come in and know that customer and service that customer, because a large account is going to have claims. So claim handling is critical to that customer and they want to know that their claims are not going to be telephonically handled. They're going to be handled by a person and that's important to them. And then obviously we have an actuarial unit that sits in the large account unit to make sure of the integrity of the pricing that we're putting out on the street, and then obviously you need to have sophisticated underwriting if you're going to play in this space.

So when we look at the strong cycle management efforts there, in 2008, our submissions continued to be as strong as ever. So the number of opportunities we got in was just as strong as it was in 2007 and 2006. However, our hit ratio was down 50 percent in that market space and our new business was down(?) 40 percent to about $20 million of business. So our hit ratio and the amount of new business we went, went down from like 40 percent to 20 percent. So you have to sit there and say, well, why is that? Well, the reason why that is, it's for all the reasons I articulated, the actuarial units sitting in there, the fact that we had pricing integrity there. We put out prices that the competition was willing to beat and in some cases, wrote those accounts at below our pure premium levels.

And then obviously, when you look at the amount of pricing that we gave up in large account unit, was only off 4 percent last year and that was only 100 basis points higher than the company average. Our retention was strong at 81 percent, 4 points higher than our normal overall retention, and then the combined ratio slipped a little bit in this sector, as our commercial lines performed last year at a 98.5, but yet had this sector was up just under 102, but I think really reflecting a lot of the price and other aspects of the marketplace.

So when we look at the relationships with our agents and how we manage price as a company overall, we look at renewal prices and we look at renewal pure pricing. We're not talking about – there's no exposure in there. We strip exposure out and are truly talking about pure price, which is what will drive loss ratio in future years. So we sit there and look at it – there's really only two surveys that we feel that are more actuarially sound. The first is Advisen, and you could see here are the two year quarter-by-quarter changes that happened in Advisen in their commercial lines pricing. On an average it's about – for the two-year time period, it's about a 5 percent reduction in price for each year in 2007, and in 2008. And then the next in the gold color is the CLIPs. And you can see CLIPs gave up a little bit less, but still pretty close to that 5 percent price reduction. And then you can see Selective in the purplish color, we gave up less price in almost every quarter than any of the other survey. And then when you look at the full year of 2008, our price was only down 3.1 versus the two surveys that were down almost 6 percent. So we really attribute that for the relationships that we have with our agents. They're not just talking about price-price, they're talking about the services that we offer, whether it's the claim handling, the safety management, going on an account-by-account basis kind of fighting that fight, to keep that retention where it needs to be without letting the – giving up too much price in the marketplace.

And then also from a January and February standpoint, we gave up 1.5 points of price in January. We gave up .9 points of price in February. And so you can see that we're improving that on a month-by-month basis. We expect sometime in the early part – or maybe in the mid part of 2009 for that to cross into the positive zone. So I think that's an encouraging thing from a commercial lines standpoint, that pricing is starting to firm, albeit in very pocketed kind of spots in the marketplace.

So when you really think about Selective, you think about the enterprise risk management overall in the organization and the tools that we have, you think about the conservative investment strategy and Kerry is going to be here to talk to you a lot about the investment portfolio and what we've done and where we feel – how our portfolio stands out different than the competition. Also, very strong reinsurance from an overall standpoint and then discipline reserving on a quarter-to-quarter basis. So I think that kind of gives you a good view about it.

And then obviously we've been A+ rated by A.M. Best for the past 47 years. We've been rated A by A.M. Best for the past 75 years. So that's a longstanding history of success when only 9 percent of personal lines and commercial lines carriers are rated A+ or better. So it's a very small group of carriers there.

But really, what it's all about is creating long-term shareholder value. We've been very successful in creating shareholder value on a consistent basis. 2008 was an extreme year where the markets reduced our book value by $2.70 almost. So and that was – happened on the AFS portfolio, but we gave up a lot of book value this year in a very turbulent time, but still have been a consistent creator of book value over the long term.

So with that, I'm going to turn it over to John Marchioni. John runs both our corporate underwriting group, as well as the field underwriting group. He's here to talk to you about our agency relationships. The whole history kind of a little bit of what we've done in terms of decision support capability and how we're now using that to our advantage. So thank you very much and I'll turn it over to John. Thank you.

John: Thank you Greg. Good afternoon everybody. As Greg talked to you about the markets that we play in as an organization and generally speaking, what our competitive advantages are, I'm going to take that to the next level and talk to you now about what are the distinct advantages that we have, how do those come together? But then more importantly, how do we take our existing set of competitive advantages and build on them through the introduction of knowledge management to build an even better, stronger and more profitable organization going forward?

So for us, it really does start with four very distinct competitive advantages that together really drive our operation. First and foremost, and you've heard this over and over again, and it will be really the focus of my presentation – is in empowered field model. So it's one thing to have our folks out there, have them closer to our customers, have them closer to our agents, but it's more important that they're out there with decision-making authority, whether it's on the underwriting side or the claims side, it's about having a field model, but having one that's empowered to make decisions.

Secondly is the best-in-class agency relationships, which you've heard over and over again, that 940 agents that we have in our 22 state footprint. But those relationships run very deep. So whether it's Greg and myself and other members of the Executive Team, regional managers, all the way down to our AMSs and our front-line underwriters building relationships, not just with agency principals, but with producers and CSRs who are out there placing the business.

The third big piece is industry-leading automation. We think we've built best-in-class automation. Our agents routinely tell us that, in fact, that's the case, and we continue to build on that as we move forward. And then finally it's a broad underwriting appetite, the ability to write a broad spectrum of commercial lines business. So those last two items taken together, really are what drives our ease of doing business, so the ability to have great automation, but also have a very broad and very strong product portfolio, make us a very easy company to do business with.

So now you take those four distinct advantages, which together are very hard to replicate, and then you introduce what we call knowledge management, so the ability at a book of business or an individual account level to make better decisions, to have better understanding of the balance between price and risk. Again, whether it's at an individual account level or at a book of business level. So that really is what the presentation here is going to be about, the blending together of those two components of our business model.

So when we talk about knowledge management, this is what we mean. Greg talked to you about the length of time you have these competitive advantages for. The first and foremost, it's about giving our folks access to better information in real-time to make better decisions. And I cite the fact that this has been ongoing since 2004, just to stress how important it is to be – for the company to have been at this for a while, to have that sustainable competitive advantage. We're five years into this and it's still ongoing, because it's a constantly evolving process. It takes a lot of time, a lot of money and a lot of investment of intellectual capital.

But it's really broken into two distinct parts. The first part is the book of business management. So the ability for our folks to look at their book of business and split it a whole bunch of different ways, whether it's by class of business, by line of business, by agency, by state, by region to drill into those results, not just in terms of growth and profitability, but look at pricing at a specific segment level, look at retentions, look at average individual rate modifications. It's the book of business capability and the book of business look. So it's about having the best data to mine. That's certainly most, very important, but it's also about having people who understand and effectively can go out and mine that data. And you heard earlier that we're going to have some folks from Brenda's unit who are going to be next door during the break and afterwards, who are going to demonstrate some of that capability for you, and then Brenda is going to talk to you a lot about that during the course of her presentation. So that's the first component of knowledge management, the book of business, sort of higher-level management look.

The second piece of it is the individual decision making, in terms of individual accounts. And it's a combination of predictive modeling and the ability to provide guidance to our underwriters, AMSs, renewal underwriters, specific to that account with regards to pricing guidance, in addition to scoring the account, giving them an indication as to where the price should be in that given account. So that's what we mean with regards to knowledge management, and our success going forward is about the – is the ability to take these tools and blend them together with our business model to be successful.

When we talk about the confidence we have and how this is going to grow our bottom-line as we move forward, this is what we mean by that. So this is a lift curve and essentially, individual predictive models, the strength of those are judged by the steepness of their lift curves. So what you see here is our business divided into five distinct buckets, with the worst performing business all the way to the right, represents about 5 percent of our premium on a historical basis. The best performing business, which is your 5-diamond bucket, about 20 percent of our historical premium, all the way to the left-hand side there. And as I talked about the steepness of that lift curve, really, is what signifies the strength of it.

So what you see on the vertical axis there is your relative loss ratio. So if you look at the zero line there, that's our average loss ratio overall. So what you'll see is the best performing 20 percent on average produce a loss ratio of 35 points better than average. That 5 percent on the right-hand side produce a loss ratio with almost 90 points worse than average. So our ability to aggressively deal with both sides of that spectrum, the underperforming segments by getting additional price, and in certain cases getting off of that business, and the best performing side of this lift curve, writing more of that business, retaining more of that business. And when you look at the overall performance, that 5 percent, 1-diamond business, adds 200 basis points – or I'm sorry – subtracts 200 basis points from our overall ROE. So we're going to hear a lot about how we're using this to make better decisions as we move forward.

So let's get back to those four distinct competitive advantages we talked about. The first one is empowered field model. And it really does for us start with our agency management specialists, our AMSs. We've got about 100 of these folks across our 22-state footprint. What makes them different is they truly do own their geographic territory. They own their agency plan, they're responsible for driving all of our products out through their agencies. But as Greg indicated, they're measured not only on growth, but on profitability. We understand the profitability and the growth of every individual AMS territory, and most importantly, we talk about being empowered, they have the ability to make underwriting decisions on middle-market business.

So when you look at how do we improve this model through the introduction of knowledge management, on every piece of new business, every AMS – or I'm sorry, for every piece of new business with lines of business under $50,000, because it works generally at that level and under, at a line-of-business level, they receive a diamond score. So they essentially know on a prospective basis how we expect that individual account to perform from a loss ratio standpoint, but then also, based on that score, in an indicated range of where the pricing on that account should be at the line-of-business level. So we haven't taken the decision-making authority away from our AMSs, but we've improved the decision making by giving them better information on how to make an underwriting and a pricing decision on that account.

And when you look at the results we've achieved since we've started to roll out these models, it's pretty dramatic. So what you see here is the distribution of new business by each of those buckets. So on the left-hand side is your very best business, 4 and 5 diamond and right is your worst performing business, 1 and 2 diamond. You can see the blue bar is pre-modeling, so before we started to roll this out. The green bar is 2008, so we were partially rolled out and over the course of the year rolled out all of our models, and then the gold bar all the way to the right is the first two months of 2009. And what you'll see here is a pretty dramatic uptick in 4 and 5-diamond new business and a pretty dramatic decline in 1 and 2-diamond business. And you may wonder why it is that we write any new 1 or 2-diamond business. It's a great question. But just remember that we write – we score this business at the line-of-business level. So in the bulk of cases, what you'll see here is a 1-diamond line of business that gets written new, has an associated 3, 4 or 5-diamond line from another line of business. So you may see a 1-diamond auto with a 3, 4 or 5-diamond package, including GL and property. So again, a very significant improvement in terms of our distribution in new business with the introduction of modeling.

Second big component of our empowered field model are the renewal underwriters that work out of our regional offices. Again, these folks are empowered to make decisions, they work out of our five regional offices, they're assigned to individual agents. So when they're making decisions on renewals and negotiating renewals from a price – at a coverage standpoint, they know the producer or the CSR who they're working it with. They understand the agency who is giving them that business and it gives them a much better context to make a decision on those accounts. And much like we do with the AMSs, we provide the same kind of information with regard to the account. And as the AMSs are measured on growth and profitability, it's pretty much the same thing for our renewal underwriters, but the measure is really about the balance between price and retention. Their ability to give up less price and retain more of their business is the key measurement for those folks.

In terms of what they receive, very similar to the AMS. They get a score on every account, so they understand what the quality of that account is, and they also get an indicated pricing range to compare, relative to where the account actually is priced, where it should be priced versus where it is priced. And then more importantly, and this is an efficiency matter, but it's also a profitability matter, is all the information that they need to make that individual account decision is provided for them in real-time on their desktop. So I'm not going to spend a lot of time here, because Brenda is going to go into this. But essentially, they get everything on the account from a price to loss experience on the agency, to help make that decision and to help communicate with the individual agency, what should happen on that given account.

And in terms of how we measure success in this area, it's about retention. So what you'll see here is point-of-renewal retention. And just to clarify, this looks a little different from what we report, typically, on retention, which is an overall retention. Point-of-renewal retention takes out anything that cancels mid-term or short cancels after a policy was issued for non-pay. This really about measuring what it is that our renewal underwriters are touching. What are the doing to the business, do they actually get at point of renewal? So you can see there on average, it's 87 percent. And the goal here is to have a much higher retention on your best performing business, 4 and 5 diamond, and much lower retention on your underperforming 1 and 2 diamond. And you can see the results here for 2008. It's another area that we very specifically measure, retention by diamond, as well as pricing by diamond, to make sure that the renewal underwriters, and when they're out there trying to achieve rate increases, they're doing it on the worst performing business, to the greatest extent possible.

The third part of the field model I'm going to cover briefly is our safety management group. The fourth component which is our CMSs, or claims management specialists, Mary is going to talk to you about in a little while. This group provides an awful lot of benefit to us and to our customers and to our agents by service to those customers. They help improve retention and then they also obviously help reduce loss frequency because they're helping that customer put in place initiatives that are going to lower loss experience. And then the other big part of what we see with these folks is, when we get them out there to work on an inspection, on a quote that we work that is pending for us, our hit ratio goes up dramatically and we also know we're getting a lot better information on those accounts from an underwriting perspective.

In terms of how we utilize knowledge to improve the performance here, it's about making sure that as we go through our segmentation, class of business segmentation, which you'll hear a lot more about in a moment, that we're directing our safety management resources to those more troubled segments in a very specific way, by letting them know what they should be looking for in a given class of business and being much more efficient at the same time.

So that's the first part, the empowered field model. The second big part of our competitive advantage is our strong agency relationships. You've heard that over and over again. You're going to hear about on our agency panel what we actual mean by that. This is a quick look at a survey we did during the course of our road shows in November for this past year. We went out over three weeks and did 50 agency road shows and during the course of that, asked some specific questions for our agents to provide feedback on, so this sampling is about 2,500 of our agency personnel.

This question was really about, what factors are most important for you when you're deciding where to place your best business? What you could see here is the overwhelming responses about relationship. So these other things matter. Our ability to provide service, ability to be consistent and competitive pricer, having financial strength, having a broad underwriting appetite, but when all is said and done, while they're all important, relationships really are what drive the business.

Now in terms of how we measure the strength and the success of our relationships, we through an independent source, survey our agents every year. So this is just a little bit of information about the results of our 2008 survey, and you can see some of the highlights. When it comes to AMS and CMS decision making on underwriting and claim matters, very, very high scores. When it comes to the quality of our products that are out there, from a coverage and an appetite perspective, very, very high scores at 93 percent. And then overall ease of doing business, again, that's not just about technology, it's also about underwriting appetite. Very high scores there. On an overall basis, 91 percent of our agents rated us in the top two categories, as either excellent or very good. And when you talk to the independent survey company, they view that as a very, very strong result.

The other thing I'd say about this, on an overall basis, you'll see the score which had run at about 8.9 percent on a 10 point scale, dropped a little bit. It came in at about 8.5 percent. and I think a lot of things are behind that. One of which is the marketplace we're in, but a couple of other things. We're talking about introducing a lot more information into the underwriting and pricing process, that didn't exist in many cases when we wrote the account. That obviously causes some disruption. We've done some things to manage our catastrophe exposure a lot more aggressively, and we've taken some targeted commission reductions. So a lot of things that we did obviously caused some disruption in the book, and with our relationships, but I don't think there's a company that could have pulled it off like we could have in terms of the strength of our relationships and the fact that our agents recognized, these are things that we needed to do and ultimately would improve our performance over the long haul.

Another important measure of strength of agency relationships is our average premium per agency. This is a look at us versus our peer group. 2007 is the experience period, because that's what we have the competitive information for. And you could see we're at about 1.8 million per agent, which is pretty well ahead of where our peer group stands in terms of average agency. And then the other important measure that we really take a lot of pride in is the percentage of our agents that we've been in for five years or more, that we occupy one of the top one, two or three spots. And you can see here, it stands at 65 percent and that's something we aggressively measure, that's something we'd expect to move up as these territories continue to mature.

And then the final piece in terms of how do we introduce better use of knowledge and information to make better decisions with regard to managing our agency plant, Brenda is going to show you some examples. We talked about segmentation a lot. Agency segmentation, performance of an agency and what's driving the performance of an agency is a big part of what we do through our data efforts that Brenda will explain to you. But then the other big part is about market planning. So what that means is, how do we know where we should be making agency appointments? How do we know that we've built the AMS territories the right way geographically? So what you see here is a couple of examples about how – in terms of how we provide information to our AMSs to make those decisions. On the left is what we call true market opportunity. So it's easy to look out there and say, where does the most business exist? What true market opportunity means is we've got the ability to look at business that falls within our appetite, from a class of business standpoint, but also scores 3, 4 or 5 diamonds. We can actually score business we don't write in the classes we want to write, and provide that as true market opportunity, and then look at the agency penetration we currently have. So in those same geographies, overlaying that same market opportunity, how many agents do we have that actually have access to that business right now? And that really helps us make better decisions in terms of agency appointments.

This is Bob Rusboldt – a quick clip from Bob Rusboldt, who is the President of the Big I National, the Independent Insurance Agents and Brokers Association, and he really talks about the flight to quality, the flight to strong super regional companies that he's seeing with regard to his agency members.

CLIP "There's going to be a flight to good companies like Selective, you're A+ rating in this environment is huge to the policyholders of my members and we see the super-regionals, companies like Selective or Westfield or companies like that that have grown and thrive and we see the Brown and Brown's and the BB&Ts and the large agents where right now, the super-regionals like Selective are attracting the top independent agencies in the country like the people in this room and it's very frustrating to a lot of the national companies where your loyalty over the last 15 to 20 years has shifted in many respects because a lot of the national companies, the Aetna's, the Kempers, and Cigna's, they don't even exist anymore, and it's the Selective's and companies like that that have filled that role and in essence why we call Selective a super-regional, you've taken on the role that nationals used to play as far as loyalty and quality of service and excellence and things like that."

I think Bob's comments really reinforce what Greg talked about earlier, in terms of how strong a force the regionals, super-regional companies are with regard to both personal and commercial lines. And I think Bob's right in his comments there.

So we've covered the first two parts of our competitive advantages. The third key piece is industry-leading automation. And you saw back in the references to the 2008 agency survey just how favorable agents view our automation. I actually encourage you during the break or afterwards to talk to either Richard Connell or Jeff Kamrowski. Those are the two folks who are most responsible for building our automation and the reason we're so successful, and I hate to talk to you about this, is it's building collaboration with agents. We don't think we have all the answers. We go out and talk to our agents, understand their workflows, understand their process and build our automation around that. and Greg mentioned to you our Accelerate technology, allowing information to be moved seamlessly from an agency's management system into our system for quoting purposes. We've got a lot of awards for that.

And then most importantly, when you think back to Greg's presentation on small business and how small business is produced, our one-and-done underwriting platform really sets us apart in that sector. And that's really where you've seen the benefits with regard to knowledge management. So again, how have we taken the knowledge base that we're building and improved our already successful business model? So that business, as Greg said, flows to the path of least resistance. What that means is, working within the relationships that we've established, how do you create a situation where agents have the ability to issue that business in their offices in real-time? So it's all about having great underwriting templates. It's about having a pricing structure that allows you to price that business in an automated fashion so there's not a lot of manual intervention required. Predictive modeling and book-of-business segmentation really allow us to do both of those things with confidence. So for us, it's not just about expanding the size of the pipeline overall, in terms of eligible classes, it's also about improving the percentage of that business that flows through without manual intervention by somebody at Selective. That's what ease of doing business in the small business space is all about.

And then the final piece of the four, in terms of our competitive advantage is, is a broad underwriting appetite. You saw in the survey from our agency road show is how important that is. Agents want to have companies that they know can handle a large cross-section of the business that they write. Some agents specialize in certain areas, many are generalists. So your ability to have products and underwriting capabilities across a broad spectrum of classes on the commercial lines side is a distinct competitive advantage. And one of the things that we're really focused on, and have been for the last couple years, is segment diversification. So we've had a lot of success historically writing contractors. It's about 44 percent of our premium on the commercial lines side. We've made a lot of money doing that, we've grown doing that. We've got a lot of agents who specialize in that area. We also have a lot of great other products in the other three SBUs and we've got some very specific organizational goals around growing new business in those non-contractor segments.

I'm not going to spend too much time here, but this is when we talk about book-of-business segmentation and improved data capabilities on the book of business side, this is what we mean. So this takes those 80 business segments that make up our commercial lines and ranks them on a profitability basis, a 3-year accident year basis from 1 through 80. And it's not just about taking the bottom performing segments and saying, okay, we need to get out of those. It's about identifying what it is that's driving that experience and dealing with it, so that you can continue to write business in that segment. And then when you get to the top half, the best performing segments from a profitability standpoint, it's about making sure you've got marketing programs and an agency plant that's allowing you to grow those businesses under those segments as much as possible. Brenda is going to actually take you through a couple of real examples as to how we take this information and convert it to very specific actions.

And then to close, a couple of other areas that we've used this information that we've developed to help grow the business. The first one is in the area of pre-qualified leads. So it's not just about reacting to the business that you receive from your agents, using your predictive models and your business segmentation in those ways, it's about how do you take that and put that to use in a proactive way? So what we do right now is we look at business that we don't currently write and our agents may not write at this point. We have the ability to score that business. So you pick a segment or a couple of segments that you know you've got product advantages in. You've got coverage advantages, your pricing is competitive and then you go out and you score the business that's out there and identify the 4 and 5-diamond business that we want to write. So now you hand that to a producer through your AMS and they know that all they have to do is break through from a relationship standpoint and they've got a customer who you're going to be competitive on price-wise and coverage-wise. We've had a lot of success with this program. And again, it's a way to proactively sell the business through our knowledge management capabilities.

And then the final piece, when you look at our state expansion over the last two years into Massachusetts for commercial and Tennessee for both commercial and personal, and you think back to the market knowledge tools that I just talked to you about in terms of building the right agency plant, but also having the confidence in your underwriting capabilities and your pricing capabilities that while you're relationships are maturing, your agency relationships are maturing, you've got the right pricing and underwriting discipline in place to grow those new states effectively.

So in the end, it really does all add up for us. We think when you look at the competitive advantages that we provide as an organization, taken together, that empowered field model, best-in-class relationships, industry-leading automation and a broad underwriting appetite, and then blend it together with that information richness that Greg talked about, not just data rich, but also information rich, it really does feed our profitable growth as we move forward.

So now I'm going to turn it over to Brenda Hall who is going to take you a little bit deeper into these tools, show you how it is that we actually help make better decisions at an account and a book-of-business level. And I really think Brenda is uniquely qualified to do this. Brenda works in my operation and runs our Information Strategy group, but Brenda was very, very involved, not only at building the knowledge management tools that we have, but in making sure that we delivered those to our decision makers in a very useful way. So with Brenda's background as a field operations manager, supervising a group of AMSs, and then also as an underwriting manager, she understands the challenges that they face every day. She understands the benefits of using this knowledge and has the ability to put it all together. So Brenda is going to take you through that. Thank you very much.

Brenda: Thank you and good afternoon everyone. It's my pleasure to be here today. You heard from Greg and John this morning, that the insurance industry is data rich and information poor. But we believe at Selective that we're data rich and information rich. And today I'm going to share with you just some of the ways that we're using information to create business intelligence. Business intelligence, it's enabling us to more effectively manage our book of business and make better decisions.

I'm going to start by walking you through our information engine, which begins with our business engines. Our underwriting and our claims systems, our billing and our safety management systems are transaction systems that are capturing a tremendous amount of data. We augment our internal data with data from external sources, such as Dun & Bradstreet and market data. We bring it all together into an enterprise data warehouse where it's stored in a central repository. But the most important part of our engine is our business intelligence platform, where the data is brought in, consolidated and aggregated into relevant information that we can use in business analytics and it will feed our predictive models. All sent back to our business engines, to our field-based decision makers.

So let's talk about portfolio management and business analytics in general. You all know that some companies do have the ability to run business analytics. They probably can do so at the state level, line of business, maybe by agency. But at Selective, we have the ability to manage our portfolio and book of business by much more than just state and line of business. Through our web-based, interactive business intelligence platforms, we have the ability and the automation to answer virtually any business question. We have the ability to gain greater insight into our book of business, because we know that the more that we understand our book of business, the more strength and rigor we can put around creating strategies that will improve our performance.

The business intelligence platform is actually delivered to the desktops of our regional management teams, our strategic business units and our AMSs. And today, three members of my team, Mike McMullin, Tom Case and Lisa Gordon, are here to show you a demonstration of the power and the capabilities of our business intelligence platform. I encourage you to take a look at what we've been able to provide the field, as well as our strategic business units.

So if we talk about portfolio management and business segmentation, John's just recently showed you that we've segmented our book, or divided it into 80 segments, segment 1 being the most profitable, segment 80 being the least profitable. We do this to provide greater focus on making sure that we're growing at a faster pace those segments that have performed better for us over time. We can do this through marketing efforts, sales meetings, retention strategies and growth strategies. But we also make sure that we have greater focus on those segments that haven't performed well for us. Not just controlling the growth of the segments, but really understanding what's driving the poor performance of those segments, so that through underwriting and safety management we can correct the profitability and continue to write these segments.

So let's take a look at the results of one of the segments that we have targeted, our specialties program, a segment in here that's a targeted segment, has a three year combined ratio of a 92 percent. Through February we've grown that segment 40 percent. By and large, due to the efforts of our strategic business unit that Phil Houseknecht led his team conducting 15 sales meetings in 9 of our states, as well as making sure that our product and our program, that the coverages are rich, that we've enhanced them, we remain competitive in this marketplace. Again, just one of our areas of focus of growing at a faster pace a segment that has performed well for us.

So let's take a look at a segment that hasn't performed well for us, the hotel segment. Like most insurance companies, we did target hotel as a target segment. In particular, the business travelers hotels. What we found as we started to analyze the book that -- and the book began to mature, that we were experiencing more losses than anticipated. Through the use of our predictive models, we do have the ability to differentiate between our risks. But business analytics gives us the ability to understand specifically what's driving the poor performance of this segment.

As we reviewed the segment and the losses, we found that it was, in fact, the newer business travelers hotels that were not performing well. The criteria that we found as we looked into it was the relaxed building codes on the newer constructed buildings. Worker's comp, there was a higher frequency of strains for the newer buildings, as well as ineffective management that was demonstrated by lack of risk management programs or the sophistication of risk management programs for these hotels. And finally, because this is a targeted segment by most of our competitors, during a soft market cycle, we did see greater pricing pressure on this class of business.

So in response to what we found, we rolled out new guidelines which are now in place. And one thing to point out is, as we were going through the analytics, we did find that within the hotel segment, the larger resort-style hotels, those that had well-experienced management, that they performed very well for us. So now we have the ability to be much more granular and focused in our guidelines, as we continue to write hotels. We require now more seasoned management, we're looking for the larger resort-style hotels, we need them to be AAA rated and they need to have a formal risk management plan in place, including incident reporting, which was focused in on the worker's comp strains.

Our safety management professionals have been trained. They now will be meeting with our hotel management staff during their onsite visits, to ensure that they meet the guidelines. From a renewal standpoint, we're going to make sure that we're aggressively reunderwriting the book. We have established retention by diamond for this segment, ad well as making sure that we're adhering to the new guidelines.

The analysis that we did for the poor performing segments, and particularly on this one, we apply that level of analysis to all of our poor performing segments, really to focus in on trends, to identify ways that we can continue to write this segment, through corrective underwriting action, as well as safety management.

So let's turn our attention to how we manage our agency profitabilities through agency segmentation. We think that it's important in order to appropriately and aggressively manage the profitability of our agencies to make sure that we're focused on a multi-year perspective, because we understand that in any given year an agency could be unprofitable, due to a CAT loss or a shock loss. So we have to make sure that we're focused on a multi-year perspective. The regions are given a segmentation report of their agencies, showing the agency's performance on a one, two, three-year basis, by line of business. This gives them the ability to identify those agencies that aren't performing to our expectations. At that point, once they have identified the agency, they have the ability then to perform a tactical book of business review through business analytics, to again, really understand what's driving the poor performance of the agency. Once they've identified it, a formalized agency profitability improvement plan or APIP plan, could be put in place to make sure that we're returning the agency to a state of profitability.

So let's take a look at an agency profitability improvement success story. As part of our agency management process, we conduct agency reviews every year. And a decision was made, as we walked into agency reviews, that we knew that we had a high caliber agent we were dealing with. The agency themselves was not profitable with Selective. They weren't growing as much as we'd expect an agency of this size to grow. But we also knew that they had a very strong relationship between the agency and the AMS, as well as the inside underwriter. And we knew that the agency was committed to Selective. So the agreement was made that we would put in place a plan to rehabilitate the agency.

The analysis that was identified we found that the automobile line of business was not performing to our expectations. As we drilled in and looked at some of the information, we found that they had a higher concentration of heavier vehicles. We had some low deductibles and some pricing pressures that we needed to take a look at. We also found that there were some poor performing non-contracting risks, which for this agency was particularly important since they have an expertise in contracting, as well as a concentration of larger risks, which basically pointed to the fact that we had a limited base of small business that we were working with.

So the plan was actually put together by the underwriting manager, the AMS, and the underwriter. What we did was we focused in on a targeted, surgical approach to reunderwriting, making sure that we were focused in on the automobile line of business, the heavier vehicles. We engaged safety management to make sure that they were appropriately servicing the larger risks. We knew well in advance which risks we were going to be asking to non-renew, so that we could sit down in advance with the agency and ask them to replace us on several risks. But we balanced all of that with a very, very aggressive new business growth strategy, which basically said, we want a controlled business, a significant amount of it. We wanted a small business base and some bond business, all knowing that we knew how to help this agency become profitable. We sat down and met with the agency principal and the commercial lines manager and we got their support and buy-in. And the results speak for themselves.

Together, we grew a commercial lines book from $4 million with a 115 combined ratio, to an $11.4 million book of business and a 73.7 percent combined ratio. Having produced a profit in each of the last five years. This truly is a success story and the reason is the relationship that we had with the agency, our ability to demonstrate that we really knew and understood the agency's book of business, as well as our commitment to grow profitably with this agency.

One thing I want to point out here is that when this plan was put in place, it was pre-knowledge management. So pulling the information together, really focusing in on what was driving the results was an arduous process. It was a very long, painstaking process that involved a tremendous amount of resources and time. But by delivering directly to the desktops, our business intelligence platform, we have the ability to be more swift in managing the profitability of our agencies. In 2009, we have 70 agencies on a rehab plan.

But with all the segmenting analysis, strategies and plans, they're only as good as our ability to execute them, which is where we believe Selective outperforms the competition. Not only do we deliver business intelligence to the management levels, we deliver business intelligence to the decision makers, in the form of the most powerful underwriting screen in our commercial lines underwriting system, which is our Decision Support Screen. The DSS screen presents an underwriter on every risk, critical underwriting information needed to underwrite and price an account. On this screen they have billing history. They have the years that we've written the account. They have the loss ratio of this particular account, the associated account with it, as well as a link to the claims inquiry system, giving the specific claims information behind the numbers. We give them the agency information, including a one and three-year profitability number, as well as a one and three-year growth number. We give them the Dun & Bradstreet up-to-date information. Safety management report, the grade, as well as a link to the specific report and findings for this insured. And here is where we give them the predictive model score, as well as links to relevant information behind the score.

But it is here that we calculate and display the pure rate increase. Greg spoke about our ability to control rate decreases in this marketplace, and we're doing so because of our agency relationships. But a large part of why we're able to do that is because on each and every risk, we calculate the pure rate increase or decrease for the underwriter, which in this marketplace is absolutely critical and we stand above our competition in doing so.

We believe that the capabilities that we have with our analytics, our ability to deliver in real-time critical underwriting information to the desk underwriter, as well as our sound agency relationships, will allow us to take advantage of the information that we have and make sure that we are improving our results in the long term. It bears repeating that we are an organization that is data rich and that we are data rich and information rich organization. And we're turning that information into business intelligence every day.

I appreciate your time and with that, I'd like to turn it over to Senior Vice President of Personal Lines, Allen Anderson.

Allen: Thank you Brenda. I've been with Selective Insurance for about three years, in fact, almost exactly three years. Friday was my three-year anniversary. Prior to that I was with Allstate Insurance for 16 years. The last half of those 16 years were spent working primarily on the independent agent channel of their business, with the Independent Agent brand.

As I got ready for today's presentation, I tried to think to myself, what sort of questions do these folks have when they come to the meetings? What are the questions I need to answer for you and be prepared to present to you. And the questions that I came up with, that hopefully are in line with ones that you are wondering about is, first, what is our real opportunity in personal lines? You heard Greg say we're about an 85 percent commercial lines carrier. So what's our focus, what's our real opportunity that this company has in personal lines? Second, what are we doing to make sure that we are staying ahead of and on par with all of our competitors when it comes to automation, underwriting information, which also helps us manage our expenses, control our expenses as well as improve our loss performance. And then finally, the one that I'm sure is always on everybody's mind is profitability. When are we going to see the improvement of profitability in personal lines that we need to get to?

So, for opportunity, personal lines has been written up until very recently in 9 of Selective's 22 states. In the last 15 months we've expanded into 4 additional states. Back at the end of 2007, early 2008, we entered Minnesota, Iowa, and Rhode Island and then in December of this year we entered Tennessee for personal lines. I don't expect to enter any new states in 2009 or as we enter at least early 2010. We have a significant amount of growth opportunity within the current 13-state footprint, and we also – it's also quite expensive for us to enter additional states. We have a lot of opportunity in our existing footprint to grow.

What is our real opportunity in personal lines? Well, we talk a lot about, in personal lines anyway, about our business in New Jersey and our business outside of New Jersey. We're pretty heavily concentrated right now in New Jersey. So obviously, our largest growth opportunities are outside of New Jersey. Historically though, we've had about a 1.5 percent market share in the State of New Jersey. So if we take a look at that market share and say that's a reasonable opportunity for us, to have a 1.5 percent market share in our footprint. You can see here how that lines up by region. And it lines up to be a total of $900 million across our existing 13-state footprint. So we have tremendous growth opportunity outside of New Jersey and in our entire footprint.

And when we talk about New Jersey, the truth is, is that we have historically gotten somewhat of a bad rap in that there's the perception that New Jersey is a very difficult regulatory environment. Historically that has certainly been true, although over the last four to five years, it really has changed and New Jersey has become a much better market to do business in, and I think the best evidence of that is that in 2008, we were able to get three rate changes approved, two of which were around just under 7 percent increases on our auto program in the State of New Jersey, and all three were approved in less than 30 days. But the fact of the matter is is that New Jersey could be the best regulatory environment on the planet and we still shouldn't have over 50 percent of our business in one jurisdiction. So we're looking for significant growth opportunities outside of New Jersey.

So what are we doing on the automation side and the underwriting data quality side as far as that goes? Well, we completed the rollout of Home Matrix. You've heard us talk about Auto Matrix for quite some time now. When we launched Auto Matrix, we really were catching up with the industry. We were behind the industry on auto pricing and the Auto Matrix program was us catching up. The Home Matrix program, however, is us, quite honestly, leapfrogging the industry. We are now of one of a, literally, a handful of companies – less than a handful, quite honestly – that are using bi-parallel rating for homeowners rating right now. And what that does is it really recognizes the difference in exposure that a home has. There are going to be some areas where you're going to be more susceptible to fire, some areas where you're going to be more susceptible to wind, etcetera. And this recognizes that at the ZIP code level, as well as all the other rating factor levels. A variety of companies are using it for research and rate making, but not necessarily in their overall price setting.

Also in 2008 we introduced a lot of real-time front-end underwriting data quality measures. So for example, we now geo code all risks at the point of sale. So immediately at the point of sale, we can assign a latitude and a longitude to every dwelling or structure that we insure. That helps us to make sure we know exactly where it is. It helps us with our reinsurers. Our reinsurers can be confident that they know the risk they're being exposed to when they write the reinsurance with Selective. That also allows us to now get distance to shore, distance to fire department. So distance to shore is important from an underwriting standpoint, as well as a pricing standpoint. Will we write the risk? Is it far enough from the shore that we'll write it? And then we also have a rating factor that varies the rate depending on how far you are from the shore. So not just what ZIP code you're in, but where are you within that ZIP code relative to the shore?

Same thing with distance to fire department. How far as you from that fire department that's going to respond to your house? It's a big difference if you're one mile from the fire department or seven miles from the fire department. And we have the ability to know that and rate for it.

We also can provide what we call an AAL estimate, which is an average annual loss estimate, it's a modeled hurricane storm loss estimate, to our underwriters on every piece of new business. Which allows them to have some additional information when they're deciding whether or not they're going to write a piece of business. What is that hurricane exposure and are we getting the right premium for that exposure? We also collect some other information, earthquake zone building code effectiveness grading.

The other big initiative that we've had is to put as much of our underwriting as possible in the front-end of the system. So the agent gets an answer immediately and we tell them as soon as we can if that's a piece of business we want or a piece of business that we don't want to be – want to have to write. Saves time for the agent, saves time and cost for us as well.

I won't go into a tremendous amount of detail on knowledge management, but we launched knowledge management for personal lines in 2008. Brenda just talked a great deal about it. I will tell you from my own personal experience, there's a big difference between having a lot of data and being able to get to your data. And we now have the ability to get to our data and get to it quickly and so we can do analysis on all of our in force, all of our production, what's our retention, as well as what are our loss ratios across, really, every element we capture on our business, which is thousands of elements. We have the ability to do that in the system on a real-time basis.

So how has this automation helped us? But we talk about one-and-done and if you look at this chart on one-and-done, when we talk about one-and-done in personal lines, it's how much of our business issues without human intervention. So the system can price it and make the underwriting decision at the point of sell, and when it leaves the agent's office, they know the price is right and it's going to issue at that point. Well, if you look back here at 2005, it was just over 10 percent on auto. That means just under 90 percent of our business was touched by a human in our office before it could issue. Through the up-front underwriting that we've put in place, we've been able to move both auto and home to about 80 percent by the end of 2008, which improves – because we have improved information from an underwriting and pricing standpoint, it also obviously drives our expenses if we don't have to have people touching that business before it issues.

Another way we've used technology to improve our opportunities is through our Accelerate technology, which is what puts real-time rating in agency management systems, and comparative raters for our agency force. So this is our quote volume by quarter on auto, going back to 2006. And the lower yellowish bar is our quotes that started in our proprietary system in Select Plus. And you can see that as we got into 2007, we started to roll out Accelerate and you can see dramatic increase quote activity through the use of these additional technologies. We've essentially taken our quarterly quote volume from about 12 or 13,000 quotes a quarter to up to close to 35,000 quotes a quarter by the end of 2008 on the auto side. Increased opportunities, that many more looks at opportunities to write new business.

So finally, what are we doing on the profitability side? Well, the story certainly starts with rate, but it doesn't end there. You can see here the rate that we've taken over the past year or so. In 2008 we took about 7.4 percent overall on our book, about $15 million in premium is how that's going to impact us. And then in 2009 we're looking at a little bit more than 4 percent and another $9 million in premium. Remember, the size of our book is about $213 million. So we've taken about $24 million in rate on a $213 million book in the course of about 2 years. Pretty significant increases.

We have been somewhat ahead of the industry. We've talked about cycle management and one of the reasons to be in personal lines, certainly the cycles are not completely different than commercial lines, but they are somewhat different than commercial lines. We did see the personal lines market start to turn a little faster than we've seen it start to happen in the commercial lines side. We've started to take rate in some of our jurisdictions, certainly New Jersey, ahead of our competitors, although we're starting to see some rate filings start to come in there as well. Allstate has filed for a double-digit rate increase. We've seen other companies file for rates in the 7 to 9 percent range. Most of those have not yet been implemented and approved, but we've certainly seen some significant rate activity on our competitors side as well. We've committed to take at least 21 rate changes in 2009, of 3 percent or more, across our footprint.

So we take this rate, we have annual polices though. Takes a fair amount of time for that rate to get into our book of business. So what do we take a look at to know that the results are ultimately going to improve? How do we know before the rate hits what's going on with our book that's going to improve it? Well, I want to describe this chart a little bit to you. What we've done is we've taken our business and we've bucketed into what we call rating groups. And you see the numbers at the bottom, 1 through 9, ratings groups. You could equate those to the diamonds we talk about on the commercial lines side. But it's done using insurance scoring. So group 1 is the group that has the highest launch potential, and group 9 has the lowest frequency of loss. And then the bucket here is the no score, groups of people that we're not able to develop a score on.

The bars represent the shift in mix in our in-force book of business. Now in-force takes a fair amount of time to move, because again, we have annual policies, business tends to stick around for a while. You'll see though that the yellowish bar, which is 2005, the last year before we launched Auto Matrix, and then 2008 is our most recent year, obviously, you see the shift in mix in in-force business. Dramatic decreases in groups 1 and 2 and the no hit and we've started to see some increases in groups 4 and up in in-force business. The red line is a loss ratio relativity. It's a relativity. So anything below 1 is better than average, anything above 1 obviously is worse than average. So if you look over at groups 5 through 9, you see we perform anywhere from 10 to 15 points better than average on a loss standpoint on that business.

Where I think the results are even more dramatic is on new business. So this is our new business. Again, comparing the same timeframe, 2005 to 2008, by the same 9 groups. I've added a line here and that's retention relativity. So how long does that business stick around for really the first two years of its lifecycle? And you'll see the opposite here, right? So above 1 is good. So the 5 through 9, those all retain 15 to 20 percent better than average. And then of course, the business on the other side retains much worse than average, and you can see we've had almost no growth in our new business in the no scores right up to group 3. It's no coincidence that where loss ratio and retention intersect is where we've really started to see dramatic growth in our new business in 2008 compared to our 2005. Certainly, all the way over on the right, group 9, you can see the new business is up about 160 percent from where it was in 2005. The best retaining lowest loss performing business that we have.

So, personal lines, what's our opportunity? Well, if we can get to our goal, which is a 1.5 percent market share in our entire footprint, we're looking at about $900 million, significantly larger than we are today. We're taking action to improve our automation, which improves our underwriting quality, improves our overall expense ratio and drives cost out of the business. And then profitability, we're taking the rate that we need to take, we're being very aggressive, often ahead of the industry on our rate action, and we're also seeing an improved mix and a shift in our mix of business.

With that, we're going to take about a 15 minute break and then I encourage you all to come back for our agency panel and we'll be starting back up in about 15 minutes, 2:45. Thank you very much.

BREAK

Jennifer: Okay, if everybody would take their seats, we'll get started again with our agency panel. Before we start out with the panel, it was pointed out to me that we have a lot of acronyms that we use, and some of them may have become confusing. So before we start the panel because I know these will come up again, let me just bring you up to date on the scorecard. So AMS is an agency management specialist, those are our field underwriters. A CMS is a claims management specialist. You're going to hear more about that from Mary shortly, but it's also been brought up. Those are our claims people that live and work in the territories where our agents and insurers are as well. Safety management specialists, those are loss control types, we have branded that as our safety management people. Again, they're out in the field working with and living near our agents and insureds. And a CSR is a customer service rep, and those are the employees of the agents. So I'm sure that will come up on the panel as well.

So as promised, we've brought you four of our best agents here today to talk to us, give us some perspective on the industry, as well as dealing with regional carriers in general, and then with Selective in particular. And I think you're really going to enjoy this panel. It's being moderated by John Marchioni, who you've already seen. So I will just turn it over to John and we'll get started. And remember, we are going to pass the mic later for your questions. This is your opportunity to talk to these guys directly and ask them questions. And we encourage you to do so. Thanks. John.

John: Thanks Jen. We're going to try to hit I think some of the key points, some of the key questions I would assume you will want to hear about. And then as Jen indicated, after a little while of discussion amongst ourselves, we're going to open it up for questions. So let's start by having the individual agents introduce themselves. We'll start with David.

David: My name is David Pruett. I'm the Vice Chairman and Chief Administrative Officer of BB&T Insurance. BB&T Insurance is the sixth largest insurance agency brokerage in the nation, and is owned by BB&T, which is a large Southeastern United States bank. So no TARP questions, please.

John: Thanks, David.

Jerry: My name is Jerry Niewiek, I'm one of the partners at Berends Hendricks Stuit Insurance Agency from Grand Rapids, Michigan. Michigan is not totally vacated yet, but we have been with Selective since about 2000, and I would say that we actually got the appointment with Selective through an acquisition of a smaller agency. And to be honest with you, we weren't even interested in the appointment of Selective, we were interested in another carrier, which we later terminated and Selective has now become the second largest multi-line insurance carrier that we represent. My duties in addition to servicing a book of business of commercial clients, I also lead the commercial department and mentor new producers and that's it.

John: Thanks, Jerry.

Mark: My name is Mark Levine, and I'm responsible for commercial lines at Eastern Insurance. We're headquartered in Natick, Massachusetts, and we're predominantly an Eastern Massachusetts agency. I'm the rookie on the panel today. We gained our appointment with Selective in the summer of 2007. I believe we were the first agent that was appointed in Massachusetts. Last year we ended the year at about $55 million in revenue, we hope to be around $60 million this year through some acquisitions through organic growth. We're owned by a bank also. We were acquired by Eastern Bank about five or six years ago. Eastern Bank is the largest bank headquartered in Massachusetts, I believe also one of the largest mutual banks in the country.

John: Thanks, Mark.

Gary: My name is Gary Berger. I'm President and CEO of HMS Insurance Associates in Baltimore, Maryland. If Mark's the rookie in the crowd, I guess I'm the grizzled veteran. We, I think, have the longest relationship with Selective going back actually to the early '80s. Agency, as I said, located in Baltimore, Maryland, 140 employees, about $250 million worth of premium in 2008.

John: Thanks, Gary. Okay, why don't we start with the pricing cycle. Obviously we talked a little bit about it, you heard from Greg in terms of where we are and where some of the industry surveys are with regard to commercial lines pricing. Clearly, the prognostications are generally around firming of price at some point during the year, so I guess then we'll start with you, Jerry. What are you seeing in terms of companies and their renewal books in terms of trying to achieve some price increases at this point?

Jerry: As I mentioned earlier, first of all, understand that I am from Michigan, and in Michigan I think our economy has been struggling already for probably two years. And it is very tough right now. And so as carriers come to us when we're doing our annual planning, most of them are saying we're looking for stabilization, we're looking for two to three points of rate this year, will you work with us, try to get it, and we're talking about good accounts now, not loss frequency issues. And the problem is you have customers that are economically challenged to the point that they're looking for relief anywhere they can. And in some cases, we're trying to get a couple of points of rate, but it is tough in our area.

John: Anybody else want to jump in on that?

Mark: Yeah, I echo on Jerry's comments. Many of our clients are under pressure right now and while we sell value proposition to our clients many are looking right now at cost and that's a big change that we're seeing in the marketplace. We're seeing payrolls decrease, we've seen revenues decrease, you'll see some vehicles being taken off the road. So it's been a challenge. We try the whole rate also where we can. I think a lot of that has to do with setting expectations well before the renewal date with our clients, and we're encouraged by what we read and what we hear that there will rate increases if not towards the middle of the year, towards the end of the year.

John: Go ahead, Gary.

Gary: John, I'd just add to that that while pricing obviously is an important factor, I think if any of us sitting up here on this panel only sold insurance based off of price, we probably wouldn't be up here today. We'd be out doing something else for a living. And companies like Selective that bring a lot of value behind a competitive price makes our jobs as producers and agency principals certainly more palatable.

David: Wouldn't you also say the agents and brokers are guilty of caring most about what's in it for me? And so if I go to a client and because of their financial troubles they're deleting vehicles and taking larger retentions and deductibles and lowering their umbrella limits and things that affect our revenue, it's still decreasing the exposure of the insured's company, and there's still some opportunity to pick up a little rate, even though the overall price for the insured is down because of their economy. So where we may not all be benefiting tremendously from the slight rate increase, we think certainly the insurance market has certainly stabilized. We're not seeing the great decreases that we were seeing throughout most of 2008.

John: So that's an important distinction there. So on the renewal book you're starting to see some of that discipline, you're starting to see some of it stick in certain cases. What about new business? And obviously if somebody has written new business account or somebody else's renewal, are you seeing the same sort of discipline around new business pricing as well?

Jerry: I would say that the problem is that we talk about wanting to get stabilized rate and two, three percent, but everybody's also saying, wait, I want to protect my good renewals. And so there still are carriers out there that, unfortunately, are not being very wise about the prices that they're throwing out. And it's not always one carrier, in some cases it's this carrier today and it's a different carrier tomorrow, but I would say that it's certainly better than we saw in '08. But everybody is trying to protect their good renewals.

John: Go ahead, Gary.

Gary: John, you have to find the pain with the new business account. Is it overpriced in this market? Probably not in most cases. We can't find those accounts that often anymore. But you've got to find is it something else. Has the current carrier done a poor job of handling claims? Have they not provided loss control service? Is the policy not as good as it should be. Another big important factor today is the clients are asking more than ever, surprise, surprise, tell me about the financial condition of this carrier that you're showing me, or the carrier that they're currently with. And I think clients today, now more than ever, are very, very conscious of that. But if you can find something that the other agent isn't doing and you can provide it, price is still a factor, but it doesn't have to be the ultimate factor for writing a new account.

John: And I think, Gary, that's a great point. And you've raised it twice. You brought up selling something other than price, and then also reminding customers about everything else that goes into a decision about service and value. But we also heard a lot about how the economic reality now is forcing insureds to really focus on how do they lower their overall expense. How difficult is it for producers that work for you to really understand that it may be a little more difficult to sell that way by selling service, and not just focusing on price? And how do you actually achieve that?

David: I think they understand it. One of the most interesting factors we're experiencing is that you think in these economic times that every major purchaser of insurance would be just opening the doors and begging all of us to come in and let's see who can get us the best deal. We're finding right now that while we're having a successful year in new business, risk managers and purchasers of insurance are so distracted in most of the lines of business that Selective participates in, that person is generally the CEO or perhaps the CFO. They are so distracted by trying to help their business survive that if their insurance program is okay and they have a pretty decent relationship with their broker or agent, they're just putting that aside for right now. So while you would think in these economic times our new business opportunities would be at an all time high, that's really not what we're experiencing.

Mark: We're also trying to encourage our producers to sell themselves out of this time right now. Because of reduced exposures, their commission, their compensation is down. And we're just working with them to look at new opportunities. They're used to earning a certain level, they know that they have to sell more new business in this environment in order to be successful. So we do various things to try to work with them. But we really feel we have to sell ourselves out of this period right now with new business growth.

David: Your typical Selective agent is not selling price. We could do that and beat our heads together all the time. I think there's been a longstanding history of that top tier of agency is selling maybe lowest cost, and a lot of things go into lowest cost, risk control, claims management services, a myriad of things other than the actual premium. So that's no different in these times, and I think what the Selective agent has always been taught to do.

Jerry: John, could I follow up on that? Just quickly, one thing I think we should differentiate here is the customer, the size of the client makes a significant difference as well. And you talked about some of the smaller companies with 20 employees or less, these are the guys that either they're going to make their truck payment or they're going to make their insurance payment. And then you get the midsized accounts, which you've talked about here. And it's those accounts that start to realize the true value of what Selective offers. And I would agree with what Gary said earlier, we are out looking, talking to prospects, saying what is it that we can do to help your bottom line? What is it that where's the pain in your insurance program? And then talk about the services that we can bring with Selective, whether it's internet-based loss control services, safety services, whether it's putting on safety demonstrations, doing mock OSHA inspections, things like that, or, again, we're looking for that value added and that's why I would agree with what you're saying, that those more sophisticated clients are more interested in the value that you bring, not the cheapest dollar.

John: And I think that's a very important consideration for us. Obviously as we went through our presentation you talk about all the service offerings. Our ability to actually get away from a price discussion and more towards a service discussion is critical for us to be successful.

Mark: I think what we're also seeing is some of the national carriers getting away from some of the services that they historically provided. That's a big issue, so someone like Selective, who still provides the loss control and other things, really is a great benefit to our clients.

John: So let's shift gears a little bit because we talk a lot about relationships, we talked a lot about it today. And I just want to get a sense, and maybe, David, if you could start on this, what does that actually mean? When agents say relationships are so critically important in determining where business goes, what does that mean from your perspective?

David: In our world, our producers and marketing people want to do business with their friends. And Selective has created an atmosphere that whether it's at Greg Murphy's level or at our AMS level, it's a quality of person that our agency wants to know on a very personal level and likes to do business with and they're professionals and they're proud to take them out on a joint call with a client. They're always there, the AMS model of you don't have to be thinking about okay, what am I going to submit to Selective. The AMS comes by and just says what are you working on, and gets to handpick the types of risk that they would like the opportunity to provide proposal on or look at. And it's a hard, relationship is a hard thing to define, but Selective has just made up, it's a model, and it's made up of a company of people you want to be with.

John: So you mentioned the AMS there, and we'll come back to that in a couple of minutes because I think it's an important component of what we do. But let's just stay on relationship for a second. Gary, you mentioned in your opening comments, you're sort of the grizzled vet on this group, which means we've had a pretty long history of success together. So what does that mean? How much if the relationship behind that? What else is it that has allowed us to be as successful as we have together over the last several years?

Gary: Well, I agree with David that we always want to do business with people that we like. Certainly we want our clients doing business with us because they like us, and we want to do business with companies because they like us as well. But that friendship only goes so far in that relationship, and you've got to back it up with, again, good products and the good services that go along with that. But the AMS model especially is the model that works in our agency as well. And I'd also point out, we've done three agency sales meetings, we're coming up on our third agency sales meeting in May where Greg Murphy and yourself and the business segment leaders, as well as the underwriters, will be in our office with our producers and our account managers talking about individual accounts. And we've done that the last two years. And directly related to that was as significant amount of new business that we wrote with Selective because of those meetings when you have Greg Murphy sitting in front of your staff. Talk about a company that's out in front of their agency plant, in between the sales meetings they do, the road shows they do, and then that executive management team is showing up at every regional agency council. Think about how much time these guys spend away from the office and their families to spend time with us and get the message to us. That's the kinds of things that build that relationship over the long haul. I'd also point out one other thing, that when Brenda was up here earlier today and was talking about that agency, I think the term that was used was LUPA at the time was a large unprofitable agent. I've been called a lot of four letter words in my life, but that was the first time, that was us, that was HMS Insurance Associates was that agency and the turnaround that we had. And the reason was was because of that relationship. I think, and this gentleman is no longer with this company, but I think he went to Brenda and the team in Maryland during an agency review and said give me one reason why we should continue to do business with this agency. And it was the people like Brenda, the AMS, the manager at the time that said because if we give them a chance, we turn this thing around, we're going to have a strong, long-term relationship. So here we turned around an unprofitable book of business and over the period of the last four or five years have had significant growth. And as you saw from the numbers up there, significant profitability with this carrier. And they could have very easily cut and run and said this isn't going to work, we're not going to turn this around, move the book. And instead we all committed together to turn that around. And I think at this point, we're in the top ten, number one in your hearts we think, but in the top ten of Selective agents.

John: Absolutely, number one in our hearts. 1A, 1B, 1C, and 1D in our hearts.

Mark: And if I could add something to the senior veteran, as a new kid on the block, we are blown away by the access that we have to senior management. And with Greg Murphy coming to our office, John, Chuck Muzzilli, I mean we don't see that from many of our carriers, if any of our carriers, to have your Chairman and CEO, Executive Vice Presidents really taking an interest, again, in an agency who's had an appointment, back when we first had the first visit it was less than a year. But we performed very well, too, and that may have caused the visit. But it's just really refreshing, and it's something that we don't see from other carriers.

John: So we mentioned AMS a bunch of times already, and we've talked about it in our presentation, so Jerry, why don't we go back to you and talk a little bit about why it is that the way we've structured the role of AMS makes a difference. We talk about it being an empowered field model, talk to us about whether or not you view those words as legitimate in terms of the ability to make decisions and how that helps drive business to us.

Jerry: Yeah. A couple of points, if I can, along that line. Going back to my opening introduction, I mentioned that when we took on Selective, we weren't even looking for a company. But from the first day that our AMS walked into our office and we got to know her, and then subsequently got to know each of the other people with Selective, that relationship began to build. And the thing that we emphasize to our staff of producers is when you work with, in our case it's Kim, but when you work with Selective's AMS, first of all, you'd better know that you're giving her good business because she's going to go look at it. She lives less than a mile from our office. She understands the economic environment, she understands, she knows many of the accounts that we write because she lives there. She sees them, she reads about them in the paper, hopefully doesn't see their picture in the post office, but taking it to the next step, Kim is very, very good at what she does. And those at Selective know that. But the thing I liked about your model is she has authority to make decisions. And then you have a field office in our case in Indianapolis, your regional office, and I think that when she calls to her supervisor, that person is still in the same Midwest philosophy, she's not calling to someone, not offense intended, but she's not calling to someone on the East Coast or West Coast, you don't like that East Coast comment.

But my point is we're dealing with people that understand the Midwest, just as I'm sure you talk about people in the South and different areas. And I think that does a lot for us to write business. And Kim is in our office, we know every Wednesday she's going to be there, and as David said, it's not well, what do you have to work on? It's our people saying to her, hey, this is an account and let's talk about this. So we're bringing stuff to her because we know she's got the authority and positive attitude.

David: One of the keys to the AMS role is not just the authority. Any insurance company could make a decision today and say, we're granting these people the authority. Selective has also given them the technology and the tools to be able to do these jobs. It's a very challenging job to live and work in the field and be doing everything you do somewhere other than your office or cubicle in a regional office. And so to me, that's one of why you have a lead, if everybody else in the industry decided they were going to go to the AMS model, Selective has several years ahead because it takes quite some time to be able to develop the technology to back that up. And quite honestly, most insurance companies don't have the guts or the nerve to really follow through on an AMS type of model. You have to be able to attract, hire, retain, and train and trust these very, very key people. The group here, I have the advantage of being in several regions of Selective, and the consistency is phenomenal that we have with our AMS. I guess our agency probably has 15 different AMSs that we work with. And the only places there is every a blip is when your star AMS gets to go to Tennessee from North Carolina to open up a new territory. And it takes us a little time to break in the new AMS into our way of doing business. But Selective knows how to do this.

Gary: John, one thing I would add, after we had gone through our 12-step program, our rehabilitation with Selective and we were really starting to gain some traction in writing some business, we were doing a business planning meeting with the regional manager and the AMS, and I said, we had a good year with you, but I really feel like there were opportunities that our AMS just couldn't get to because of the workflow that they had and the number of agents. A week later I got a call from the regional manager that said to me, Gary, if we, if you would commit to a certain level of new business production with us, we would be willing to reduce the number of other agents that that AMS had to deal with. Would that be something you would be interested in doing? And that's what we've done, and it's gotten to the point now where I think we're almost pretty much volunteering our AMS an office in our facility so he can just work directly from there every day.

John: So why don't we go in a little bit different direction here too because during the course of the presentation we talked about deploying a lot better information, which means AMSs are now making decisions on accounts from either an underwriting or a pricing perspective with information they didn't always have access to. You add to that the marketplace we've been in for the last few years where pricing is, in certain cases, thin, some of the business that may be out in the marketplace shopping around may not be of the best quality. So the AMSs are probably in a position where they may not be saying yes as much as possible, or as much as they used to, or they may be not be willing to be as aggressive on pricing as some other companies may be, which clearly could lead to frustration. And anybody who wants to jump in on this one, talk about how that works. And when you think about that context and our ability to grow as an organization, your ability to grow as an agency, how do we overcome that, or do we overcome that challenge of these down market cycles?

Gary: I think if you're going to be a long-term player, you don't want to overcome that. I think we all accept that every once in a while somebody is going to tell us no. And that's not necessarily a bad thing. And I think you could even take it one step further, candidly there's accounts where we probably want you to say no on. Or there's accounts that we're not even going to submit to you because we know, one, it's not your appetite, or it's probably not the best account to put with "a valued partner" like Selective. I think we're doing some frontline underwriting to kind of support the AMS from the early stages on any account as well.

Mark: That's right. I think we do that with the AMS, so no one is wasting anyone's time. They look at the opportunity, if it's not a Selective opportunity, we just move on to the next one.

Jerry: I heard a different question from you there. Lowest price isn't always what's going to get the account. And as I mentioned, in our agency, and it sounds like in these gentlemen's as well, we're not going in just talking about well, let me give you a quote, let me give you a quote, because we're both going to lose in that situation. And so, again, on the first appointment that we have with a new prospect, we're not even going to talk about price, we're possibly not going to talk about insurance. We're going to talk about starting to build a relationship with that prospective client with us and with the services in the back of our mind that we know that Selective can bring. And we will ask very pointed questions about, as Gary mentioned, are you having loss problems? Are you having claim issues? Are you having audit issues? What are things that are important to you?

How can we make your life easier? And how can we affect your bottom line. And then on our next meeting we'll come back and ask, again, revisit those same issues. And we'll again talk about Selective as a company, their longevity. We'll talk about financial strength. We'll talk about the benefits of doing business with a stable company who will not, this year buy your business and next year or the year after check out their sense of humor with an 18 to 20 percent increase. So, yeah, price is important, but we are looking to sell to a value added, and Selective does a great job of that.

David: John, we'd love an insurance company that would say yes every time, but it would be a very short-lived love affair. We would absolutely destroy that company. And Selective agents are professionals and understand the industry. Deal Flow makes no more palatable because usually in the same conversation where an AMS or someone in the regional office is telling you no on something, they're also telling you yes on something else at the same time. It's just a part of what we do.

John: Let's get back a little bit to the relationship discussion, sort of an offshoot to relationship. We talk about franchise value, which means with a company of our size and the number of states we're in, at 940 agents, you see that we actively measure share of wallet, as Greg talked about, or average premium per agency. We believe that matters to agents. Talk about whether or not that does. Does franchise value matter to you, as opposed to more of an open access approach for companies who will appoint multiple agents in the same geographic application? Is that important, and if so, how important?

David: Well, the first thing that comes to mind, yes, it's important that there are a number of national carriers and even some regional carriers that everyone has, and it really diffuses the value of your agency. But an example where both the relationship and the franchise concept came into play, we have a number of agencies in Tennessee, and when Selective made your entry into Tennessee, we proposed that in the cities we have agencies in Tennessee, if we can meet your objective, why not really let's do the franchise thing and let us be the only agency appointed in those cities. If we can't reach your growth objectives, then you have every right to expand the agency plant within those cities. And Selective agreed, truly because it's a great relationship, and you all believe in what, you don't just talk the talk, you really walk the walk on the franchise concept. And so far it's off to a smashing success.

John: It sure is.

Jerry: Franchise value is huge. And again, as I said before, when we go in to talk with someone, we're looking to differentiate ourselves. And by representing Selective, where we don't have ten other agents in our town that all have Selective, we're differentiating ourselves right there. And then we have to build the case why we're different, why Selective is different. Again, it's that whole idea of being able to differentiate and have the value there.

John: Jerry, why don't we stick with you for a minute here and talk a little bit about automation. Again, another one of those basic tenets of our business model that we promote as a difference maker for us. Talk a little bit about how our automation is perceived by you and your folks, as well as how it is perceived relative to our competitors.

Jerry: My staff, they think Selective is top shelf. Nobody does it better. And I'm not saying that just because I'm here, going back to what I said earlier, we weren't interested in Selective initially, then we met the AMS, then we learned about your technology product, then we sold our first policy. And I kid you not, in three days we had that policy in our office. Our staff was walking around with the policy going did you see this? Is this a mistake? As we continue to get pressed harder, our margins are being shrunk down, everything has to be more efficient. And Selective's use of technology allows our staff to use our automation system as opposed to a proprietary system of a national carrier or of another regional where our staff know how to use that, they use it very efficiently, we can upload stuff, get it done, get it rated, and if it works, price is good, boom, they push a button, the policy is issued, coverage is bound, and it's done. And that can be done in a very short period of time. It's efficient for us. Just like when we make change endorsements, somebody calls in and they need to just add a different vehicle and take another one off. The old way of sending that request on to the company, if you were lucky you got it back in 60 days, and then you'd look and see the VIN number was wrong, so you could send it back. Today, it's seconds. Our staff goes in, punches in the request, it's done right, boom, it's done, and, again, we'll have it actually the next day, paperless, and then the insured's copy will come in a couple of days. So the time it saves us and it also reflects well to the customer that we can get the product to them, probably within ten days time as opposed to some carriers that can't get it to us in three months.

Mark: What was really impressive for us as a new agency is the training that we received because here we are with a new carrier and a new system, and the time that your people took with our CSRs just to get them comfortable with the system really allowed them to be more productive I think a lot quicker. And it took a lot of the mystery and the apprehension away. So the training was fantastic as a new agent coming on board.

Gary: John, I think it's important to note that with a number of the regional and many of the national carriers that we deal with, your automation system is years ahead of many of them. And they have not made the investment and spent the cash to build the system that you've built. And at some point they're either going to do it, or it's going to be too late for them to do it, and a lot of that business will have the ability to move on to Selective as well. Because we're making, you talked about it earlier, I mean not just on the small commercial standpoint, but now even a migration into the middle market, the middle size account, the automation piece is as important as almost any other piece to the process. And you guys have really done a superior job of putting the automation platform together. And a lot of companies, quite frankly, either are afraid to spend the money or don't have the stomach to do it.

Jerry: One more thing I could add, I could give you a real life example of something that just happened earlier this year where we placed an account with Selective, a very nice sized account where you were not the lowest price. And it was a fairly significant percentage that you were higher. What sold the clients on Selective was the fact that he had eight different locations, and he has a lot of drivers. And they wanted to do driver training and have resources available from a safety standpoint and so forth, your loss control department was able to come out and show them how they can use your web-based loss prevention and defensive driving courses, and that sold them. He had drivers, and he's got them in Florida, Georgia, Ohio, Michigan, and he loved it.

John: Let's switch a little bit different direction staying sort of on the ease of doing business and talk personal lines. In Greg's presentation he talked about the size of that market, as well as the percentage controlled by agents and more importantly, regional companies within that market share. And then Allen talked about the investments we've made on the basis that we believe it continues to be an important source of revenue for agents, and we think that regional companies continue to play a significant role in that market. This is more for Gary and David because we don't do business in Michigan or Mass. But what's your sense in terms of what personalized operation, or more importantly, do you in fact view personal lines as a significant source of revenue for your agency going forward?

Gary: Well, for us, I think it aligns very well with Selective, because especially in what we're seeing as some downturn in the economy and the impact that that's having on our commercial customers. Believe it or not, the personal lines book of business of an agency or a company can help maybe level out some of that fluctuation of exposure because of the economy. So from us, we're actually looking to grow our personal lines book of business in our agency. Right now it's less than 10 percent of our revenue. And we want to continue to expand that and increase it. And with the product that Selective has with Matrix now, according to my personal lines folks, it's the slickest automation system, the fastest, the easiest to use, and because of that, they're gaining market share in our agency now on an annual basis from a personal lines standpoint. So I know what I personally pay to have a couple of teenage drivers and personal vehicles on a personal auto policy, so for a lot of our customers, we want that premium coming through us. Our goal is to get our clients, any insurance check that they write, they want it written pay to the order of HMS Insurance Associates. So personal lines is just another enhancement and another good vehicle to help our agency grow.

David: In our case, personal lines is by a significant margin the most profitable part of BB&T's insurance operations. So it's very important to us. Now, it's not as easy to grow fast, there are some real challenges to it. But it's a very significant part of our bottom line. I agree with Gary that it's important to an insurance company because it is more table. We talked about retention today, and retention in personal lines is generally about five points better than retention in commercial lines. So even though it does have a little bit of the market cycle, it does not have nearly the market swings that we experience in commercial lines. Add the positive retention on that, it's a really good thing to have in your portfolio. And then finally, I'd point out that for both BB&T Insurance, and I believe for Selective, the vast majority of our commercial lines insurance purchasers are small business and middle market businesses. It does not hurt the relationship at all for that insurance purchaser, the CEO, the CFO to also personally be clients of Selective's. It can bring a lot of stability into that relationship as well. So we applaud Selective and encourage them in the states that they're not doing personal lines, we'd like to see even more of it.

John: And just a closing question before we open it up to the audience, David for you, I think part of the group that we pulled together here was to really also focus on the fact that we think our business model can work with a bunch of different types of agencies. We have a couple of bank owned agencies, agencies of different size, you folks are obviously a little bit more unique because of the geographic distribution of your operations, and really more of a corporate type oversight group, in addition to a bunch of individually operated offices. So just talk about why it is that you think that relationship has worked, and it worked for you as a small independent agent, and now it's worked for you as part of a large bank aggregator. Why do you think that's transferrable like that?

David: Well, first of all, you can go back to it was a major consideration and a point of concern for us as a small independent agency that was looking at an opportunity to be acquired by BB&T, largely because the BB&T experience was going to provide some leadership opportunities for some key people in our agency. And we were very interested in pursuing that, but we knew from history that one of the first thing that happens is you lose your Selective contract. And that was not a very positive thing for us. So before we finalized our decision with BB&T, we went to the regional people, and then ultimately in conversations with Greg and said we know that you don't, at this point, this was 10.5, 11 years ago. We know you don't like bank owned agencies, we know that you don't like aggregators, let us explain to you why we think that our model is different and can be adapted to work with the Selective model. Give it a chance. We're not saying forever, just try this. Don't pull out on us right this minute. And because of the relationship that we've been allowed to have with Selective, the decision was made to give it a try and all of BB&T thanks you. It's worked out very, very well for us because the relationship caused them to reconsider and say okay, we've been making this hard and fast decisions about not playing with aggregators and bank owned, that's going to leave us out of a pretty sizeable and growing part of the marketplace. Let's reconsider our decision and give it a try. And it's worked.

John: Okay. We'll open it up for questions. We have a couple of microphones around the back and one u in the front here, so if you wouldn't just mind, raise your hand and we'll get you a microphone to ask your question.

Q: David Lewis -- Raymond James
Thank you. This is David Lewis with Raymond James. A couple of questions. First, I guess the question is where do you send the no business? Is that to the nationals or somewhere else obviously you've got relationships with people contingent commission? Do you know what people want out there? So where do you send that no business is one question. And second of all, I guess I'm a little curious about disparity between the pricing trends that we hear out there between Advisen CLIPS, Market Scout. You guys are talking about trying to get two to three percentage points improvement, Market Scout talks about nine percentage points commercial decline. I guess I'm a little confused on the disparity between all the different surveys _____.

John: Why don't we take the first one first, the first part of the question first, which is the non-Selective business, as you guys referred to it early on, what do you do in terms of placing that without getting into specific company names, but generally speaking, how do you find markets for that?

David: Well, just because it's a no to Selective doesn't mean it's no business. There are lots of markets, and it may just not fit one of Selective's specialties. They may have significant operations in parts of the country that Selective chooses not to do business in. There are numbers of reasons that something could be no. And as one of the largest wholesalers in the country, we also have the E&S market that we can go to if it's truly no, if there's something that the Selective's or other regionals or national players. I think it's more about the relationship with Selective causes us to give them yes opportunities first rather than focusing on the no's.

John: Anybody else want to add anything to it?

Mark: Well said. Different carriers have different appetites.

John: So the second part of that question, if I understood it correctly, was trying to get a sense as to what's driving the disparity between the commentary around attempts to achieve renewal price increases versus what the surveys are indicating is actually happening. And I'll throw it to the group, but just one point of clarification I guess I would put out there is the pricing surveys tend to be historical in terms of what happened, whereas the manner in which pricing is measured and some of the commentary you're hearing about what's being asked for is more prospective. So an account that's being worked on today by a real underwriter where they're saying I want to achieve two or three points is something with an expiration date that probably sometimes 45 to 60 days out, and you've got to earn that premium in. So that's just in terms of mechanically why you may see some of the difference. But I'd also throw that out there, again, to sort of reinforce maybe some of the conversation we've had around are companies really following, they're saying they're going to be pushing for rate, are you actually seeing it come through renewal by renewal I guess is the crux of the question.

Jerry: Yeah. Again, just to be redundant I guess, but we're trying. There's a key there. We're trying to get 2 to 3 percent. One of the things that we've talked about is, again, specifically in Michigan, we're seeing the exposure basis going down. But the customers are very attuned to the fact that while my payroll went down 10 percent, why has my premium only gone down 7 percent? Well, that's where there's a couple of percentage points of actual rate increase, and yet the exposure basis still went down. Again, it's not easy. Don't misunderstand, again, companies are trying to protect their good renewals and you get into bid situations where somebody's bringing a price in that's 15 points less, we've got a big job ahead of us to convince that client why they should stay, why we should be able to get something better than 15 points off. And I also suspect it might be somewhat geographic.

David: When we built our '09 plan, you start in June or July, Lord, if we all knew back in June or July of '08 what life was going to be like now, our plans would look little differently. But we counted on some market stabilization in the first quarter of this year. We have not experienced that. For Jay or anybody who tracks the brokerage industry, we're making it up with new business. But we're still seeing the market being pretty soft. Not as soft as it was. I'd also mention our company plays in the wholesale world a lot. You get the benefit in the large E&S business of seeing the market cycles first. So when things are going to really start softening, you experience it in the wholesale side, when things are starting to firm up, you see it. And we're seeing a smidgeon of a possibility, that's a Southern word, of a possibility of some market firming. And so now we're saying well, maybe by fourth quarter the soft market will be over. Who knows.

Mark: I mean I was surprised to read some of those reports also, because we aren't seeing a 9 percent reduction, we're seeing some slight reductions in some cases. But I'm not sure if it was Market Scout that it was either January or February, whatever it was, and at least we aren't seeing the nine percent. It might be out there somewhere, but.

Gary: Not on the rate side. You're seeing it, I mean if exposure is down, obviously you can see premium go down 10, sometimes 20, sometimes even more than that on a percentage basis. But the rates aren't going down that much. And it's almost gotten to where it's account by account, every account would be treated differently depending on the circumstances.

Jerry: What we're seeing now, which is interesting, is we're seeing some of our clients taking higher deductibles, assuming a little more risk where they might not have. I think they may have said, they may not be purchasing the same limits of umbrella coverage that they may have in the past. So we're seeing some of those behavioral changes. But nothing really in deep rate cuts.

John: Another question?

Q: Mike Grasher -- Piper Jaffray
Hi, it's Mike Grasher with Piper Jaffray. You all have had great experiences with Selective along the way. Maybe if you could share with us what it, if you have a wish list, how they could enhance the relationship.

John: I can repeat that for you, Mike, if you want. So the question from Mike was you all have some great experiences with Selective over the years, but if there's the wish list of items you'd like to see improved upon as we move forward, what would that be?

Jerry: A couple of things that we would like to see Selective jump into, again, they do a great job on many things but there's an opportunity for the executive liability, fiduciary liability coverages, more expansion into the bonding arena. I know Selective does do bonding, but compared to some of the competition, I think that you're missing some opportunities, and we'd like to have some further discussions along those lines.

Mark: I know you're new in Massachusetts and in New England, you are in Massachusetts, Connecticut, Rhode Island. We have some opportunities with accounts that might have locations in New Hampshire or Vermont and we're precluded from using Selective because of the fact that you do not do business in those states. So while we're very happy you're in Massachusetts and things are going really well, eventually if there was an expansion we probably could do more business.

John: So footprint and some appetite expansion in certain areas are two things we've heard so far.

David: That is interesting. When I think back on conversations we've had when we're given the opportunity to give our wish list to Selective, it's always about wanting more Selective. I think of our, we have retail locations, about 110, and Selective is in probably 40 of those. It's part of the model. We've come to mutual agreement on where the fit is. We'd like to have Selective everywhere, so that's kind of a nice compliment. Even broader appetite would be great. The states we have personal lines in, we love it and wish we had personal lines in all of the BB&T states. So it's just all about more. We want more.

Gary: I think there's opportunity out there, and I think that Selective, with kind of the what you've built, I think you could go after larger accounts than you go after. I really do. I think you could go after loss sensitive business, or even large guaranteed cost business. The business is still out there. You can grow and get good profitable business, accounts that believe the way you believe in claims service and loss control, and believe in good policy form, so I think that's an area I'd like to see Selective kind of step it up to the size of accounts that they're willing to go after.

John: Okay. Thank you.

Q: Mike Grasher -- Piper Jaffray
[inaudible]

John: So the final question there just for the webcast was, am I understanding it correctly, anything additional in terms of start the execution.

David: We've started having conversations with Selective about maybe starting to develop some, we have a lot of clients that are interested in self service through the web. So that's not something that exists today that I think we need to spend some time working on. And then I went and surveyed some folks in our agencies in preparation for today, and their wish lists were petty little things that I would hate to bother you with. On an endorsement request we have to do this and this, and it would be so much easier if we did it this way. It's really a very insightful company, attuned to the desires of their agents.

John: But customer self service is one that you think would be. Okay. And that's obviously something we've talked about as an organization, starting to really build that as we move forward. Any other questions?

Q: Just a quick question. I was kind of thinking about the reduced exposures that you're seeing in your individual agencies, reduced terms and conditions. Let's just assume that the rate on line is flat, so if you're not putting any new business in is your business going to be down 5 percent, 10 percent due to the economic conditions? What's kind of your thought process?

Jerry: In our budgeting process, much like Dave was saying, we actually had budgeted for 5 percent if we had no growth. I'm sorry, 5 percent reduction. Thank you. Yeah, I apologize.

Gary: I can't imagine a world where you don't write new business and you're not looking to grow as an independent agent. But I think if we looked at our renewal book of business, we budgeted a 95 percent renewal retention rate on a premium basis. Now we have accounts that are getting cut in half. We're in Baltimore, the bad news is we all pay a lot in taxes. The good news is a lot of that money gets spent within a 50 mile radius of my office. So we're still seeing growth. We're actually starting to see the stimulus money take hold in Maryland right now. We're seeing road projects coming out for our road builders, bridge projects, bridge painting projects, which a lot's been going on up and down this Hudson River. That money is coming out very quickly. So we're actually starting to see that take hold now. We have a good amount of base realignment going on in Maryland. So we have accounts that have plenty of work from a construction standpoint, we have other accounts that are actually technology accounts that are looking to add staff, add personnel. So you're seeing that, but yes, we also have the homebuilders that got cut in half two years ago, and then got cut in half last year, and now we're even starting to see a hint that that's coming back. But from our standpoint, our producers, there was no producer in our office that could hand in a negative growth budget. I mean not one. I mean that's just not an option that we have as an agency to have negative growth.

David: If we cut our new business off, we'd be at 92 percent through the first two months.

John: So it's a combination of lost accounts and declining exposure, which I think was the root of the question with regard to –

Q: Exposure vs. price.

David: Oh, we never lose business. There's always exposure.

John: And I think the answer too really varies depending on what type of business you're writing. Clearly exposure is down a lot more in the contracting segments than it is in your non-contracting segments. So that will also drive exposure to clients.

David: And part of the truth of the answer is is that agency brokerage automation is not really sophisticated enough to provide us with that. I don't really know the answer to your follow-up question.

John: A couple of more in the back here.

Q: I was just curious in your perspective from the broker side, when you're looking at growing your business, do you look at it in terms of Selective, ever look at it this way, Selective has capacity within these verticals we should allocate a little more resources to filling that capacity? Or do you look at it from top down where you have opportunities in certain lines, certain businesses, and that's how you're going to focus on your business? And the secondary consideration is that Selective is a good underwriter, but we don't really have business coming in their appetite range. So if you could just expand on it, maybe some of you can give a perspective.

John: Anybody want to grab that one in terms of whether or not you're looking to build vertically with a company like Selective, or it's a matter of getting out there and if you're bringing in business that happens to fit, it fits, if not it's going to go other places.

Jerry: My response to that is in our organization, a number of our producers are what we call niche marketing, one writes specifically non-profits, one writes just municipalities, one writes just construction. We try to match those producers and their goals with our carriers, and specifically with Selective as it looks to the different lines of business where we know that they can excel, we know that they've got great products, they can provide the services that are going to be needed. And again, we're marking to somebody that's not just price driven. So that's how we look at it.

Mark: I think one of the great things with the AMS field model is the fact that our AMS is out visiting with us every other week. And she's with our marketing department looking at new opportunities, with our CSRs and account managers and seeing what might be renewing in the future and trying to see again what might be a fit. So I think being in our office, interacting with our employees, we have the opportunities. And then we decide what is a good fit for Selective. And the flow has been there.

Gary: We business plan with these what we call our partner carriers. And we sit down with them and at the beginning, at the fourth quarter of '08 we're putting together a plan of how much new business we're going to write and what kind of retention ratio are we going to have, are there any accounts in that book that might have to move elsewhere. And we spend a lot of time going through that. And then we plan that we're going to write a certain amount of new business, and it's our goal to achieve that plan. So through that, we're going to look at individual accounts that we know that are new business opportunities for us, and we'll tell Selective that here's, these are the accounts that are coming up, will you commit to us now that this is something that you're going to look at for us. And they will, and we can actually build that plan from there as to how much new business we're going to write, and then how we're going to do from a renewal point of view. And then follow that plan through on a monthly basis throughout the year.

David: We probably take a slightly different approach, and be one that might be frustrating to Selective. But we take more the approach of here's our plan, our job is to bring you opportunities, Selective is an important partner company with our agency, and we think you're going to get more than your fair share just because you're going to do a great job. But ultimately, those decisions have to be made by the purchasers of insurance, and we can't steer business to any particular carrier because of our close relationship. They have to earn it in the decision made by the client.

John: Okay, I think we've got time for one more. I saw one more hand up, so why don't we go with one more question?

Q: Jay Cohen -- Bank of America/Merrill
Thank you. Jay Cohen from Bank of America/Merrill Lynch. Just two questions. First is what do you think from a commission standpoint from the carriers, up, down, sideways? And then secondly, have you felt pressure to deal with fewer carriers over the past say five years?

John: So why don't we take those again in two parts. So let's deal with commissions first, any changing in the environment with regard to the commission levels overall without getting specific to any companies?

Answer: They're all up. We need catch up.

John: Really, anything out there in terms of changing in commission levels?

Jerry: Nothing to mention.

Gary: We're seeing some favorable options on commission with certain carriers.

John: And where are those? Are they focused on new business, is it retention based?

Gary: Well, I guess I have to be careful what I say after David's comments. I didn't want my comments to be construed as we steer business based on because we've got to give a carrier a certain amount of new business. That wasn't the intent of my comment. But we are seeing some programs in place based on hitting plan, profitability, and whatnot that are different than we saw a year or two ago.

John: And then the second part of that question, if I understood it correctly, was whether or not you're feeling pressure to consolidate markets based on what's happening out there.

David: We're kind of afraid to right now. Okay, Jay, give us the list of the ones we need to get rid of, we would have all missed the last few years. I think there will still be a lot of carrier consolidation that happens that we'll have to deal with because of that. But we're not at this particular time looking to lose carriers unless their financial strength doesn't merit having a piece of our shop.

Mark: And we have obviously gone the other route where we brought Selective on a year-and-a-half ago. And last year we wrote somewhere around $2.4, $2.5 million in premium. We also believe that we need all our carriers because we have been doing acquisitions. And when you acquire an agency, in order to bring that business over, you really don't want to disrupt the current relationship. It's invaluable to us to have all the carriers, all the carriers that we currently have.

Gary: I think carriers are putting pressure on their agents to grow. Some agents, the way that they can grow with a particular carrier is internally moving a book of business from one market to another. I think there's pressure on smaller, not growing, stagnant agents to do that. I think larger, growing agents have, and Greg Murphy might disagree with this, but in many cases, you need a, I think as an independent agent part of the value that we bring is we bring options to our clients and our customers. And I think you need to have those options now more than ever.

John: Well, I want to thank all four of our agency panelists here. We are going to take a very brief ten minute, not even a break, let's call it five minutes, so if you want to get up and stretch, but we've just got to pull the chairs off and continue on with the presentations. Gary and Mark and Jerry and David are going to be here through the reception, so you certainly have opportunities to interact with them a little bit more. But thanks. We're going to breakdown the chairs real quick and start right back up.

BREAK

John: We're going to start back up again. Just one reminder before I introduce Mary: I really encourage you, when we're done we've got a reception next door. We also have a number of folks from Brenda's team who have some real live demos over there in terms of our business intelligence platform and everything we talked about here and the functionality around that is available there to look at. And I really encourage you to do that. So when you go over there afterwards during the reception, I encourage you to go over there and ask the folks to kind of walk you through some of those things. It's very, very powerful and I think really speaks volumes about what we've built in terms of capability.

Now we're going to hear from Mary Porter. Mary is our Chief Claims Officer and as we said earlier, a big part of our service model is our claims structure. So Mary's going to take you through our current claims structure and really talk to you a lot about the improvements we're driving through that organization. So I'll turn it over to Mary.

Mary: Thank you, John. I'm pleased to have the opportunity to talk with you this afternoon about Selective's Claims Organization. You'll notice in our intro slides today you've seen a lot of photos of roadways. And Claims, we've got the fast lane here because as you all know speed in a claim operation is absolutely crucial.

You've also seen on the bottom of all our slides today Selective's logo and the tagline that says, "Response is everything." Well, for the claim operation at Selective, that's really our job every day is to respond and to fulfill the promise that we make when we issue our policies to our insureds to be there when they have a claim, to help them put their lives and their businesses back together and to get their employees back to work.

Let me tell you about what we're doing in the claims operation to make sure that we're fulfilling that promise. First, let me talk to you about the scale. At the end of 2008 we had approximately 38,000 claims open in all of our lines of business, GL, auto, homeowners, worker’s comp. And we had on our books about $2.3 billion in loss reserves and $385 million in our loss adjustment expense reserves.

What we're doing in Selective Claims is to look at the opportunities that we have to improve the cost of goods sold to make sure that we're handling claims quickly and as efficiently as possible so that we're contributing constantly to Selective's financial success and our bottom line. We're looking to get the best integrated outcome in every claim, to pay the right amount on that claim for the loss indemnity payment and at the right expense dollars.

We can get that best integrated outcome by really looking at our cycle time, again paying what we owe as soon as we can evaluate that claim and quickly resolve it for the benefit of our insureds and claimants; to do it in the most cost effective way making sure that we're handling those claims in the right place, be that our service center or through our field adjusters; and again managing those expenses for everything that's part of what we need to do to adjust a claim.

The Claim organization at Selective has three main parts. You've heard about our field model and that really is what differentiates us in the industry. And that field claim model in our five regions is supported by our claims service center in Richmond, Virginia and our corporate claim operation in the corporate headquarters in Branchville. Let me talk to you about each of those components.

Our claims service center in Richmond is open 24/7 and that's really where a claim starts. We get the first notice of loss from our agents, from our insureds or from claimants to tell us that they have a claim. We set up that claim immediately in our MCS, mobile claim system, our electronic claim system and we get that claim to the right place immediately as soon as it's called in. Now some of those claims stay at the service center where we adjust total loss, glass claims and auto physical damage claims in a processing environment that gets the most efficiencies and gets those claims taken care of quickly and at the lowest expense possible. We also handle other small dollar claims there at the service center for lower level property claims and other theft claims again that we can process and handle quickly and efficiently at low dollars. That gives us shorter cycle time and again helps to control our expense.

Our field-based claim organization is really what differentiates us. We have 140 CMSs, claim management specialists, working out of their home offices together with their supervisors who are also based in our five regions that can respond immediately to any claim. They can work with our agents, with our insureds and with claimants to perform that immediate investigation, to take pictures at the scene of the fire, to interview witnesses, again making sure that we have all the information to adjust that claim as soon as we possibly can and to respond to our customers quickly and make sure that they understand that we're going to help them get their lives and their businesses back up and running quickly. And we also in our five regional offices have our field-based litigation adjusters when our files go into suit and our worker’s compensation adjusters are located in each of our five regional offices working on those files quickly and expeditiously to get our insureds' employees back to work.

Our field operation is also supported by our corporate claims organization where we set the policies and procedures to be ensured that we're handling claims effectively and consistently throughout our claims organization. We have line of business expertise in all of our lines, worker’s comp, property, GL and auto. And when files have exposure beyond what the regions' authority are, they come into our corporate claims operation where we have highly experienced analysts who work with the field on those high exposure cases and those high exposure litigated matters.

We have specialty claims units in Branchville where we handle environmental and asbestos claims, we handle municipality matters, employment practices liability, those types of claims that are less frequent but have a high level of technical expertise necessary to make sure that we're doing the right thing on those claims. We have a claims legal department. In addition to our 11 staff counsel operations in four of our jurisdictions where we have staff counsel representing our insureds in litigation, we also have in-house legal expertise on coverage to analyze the coverage available under our policies and to provide litigation strategy. We have quality assurance training and compliance operations as part of our corporate claims operation to make sure that we're supporting the field in those areas as well.

When I first joined Selective two years ago, I was asked to look at our entire claim operation and figure out how we could use opportunities to make a really good strong claim operation even better and over the past two years we've done just that. We've had internal operational reviews of our processes and our claim handling and also we've asked vendors to come in and help us, consultants, help us analyze our business to make sure that we have best practices in place and that we're doing things in the most efficient and cost effective way possible.

We did two of those reviews very extensively last year, first on our worker’s comp operations. We looked at the entire operation in both our field operations, our first notice of loss in service center and our corporate claims operation. We also looked at our overall claim processing, again from the beginning of the life of a claim through litigation to ensure that we understood where we could possibly again make a good organization better and be more cost effective and get those claims resolved more quickly.

We also over the last two years have participated in the Ward Group and their claim study where we provide all that data that we get in every day on all of our claims to Ward and then we have the opportunity to see how we benchmark against others in the industry across the whole claims spectrum of loss and expense payments and other operational data points so that we can see where we may have some opportunities or where we stack up very well against some of our competitors.

After we completed that review of our worker’s comp operation, in September of last year we rolled out a worker’s comp strategic improvement plan that's already in place. We looked at our telephonic and field case management and we looked at the contact that we had with the vendor and made sure that we had the right dollar costs in place there and that we were using that field case and telephonic case management effectively on the right claims and we improved our triage of those claims that are task-based assignments to make sure that we were getting the best benefit we could from those expenses.

We also made sure that we right-sized the case loads of our worker's comp adjusters so that they could really spend the time they needed, especially on those lost time claims to get those employees back to work and manage those medical costs. We streamlined some of those procedures, again to make sure that we were operating the most efficient way possible and we also centralized our bill review operation and our PPO penetration has been an enormous emphasis on our part and we really are seeing those strategic improvement plans start to work. Our goal this year which we think that we can achieve is a $6 million savings in our worker's comp claim operation.

Other initiatives that we have already in place in 2009 is litigation management. You all should understand how much the costs of a claim increase as soon as it goes into litigation. And we put a lot of initiatives in place last year in 2008 that had some success. We looked at our panel of outside counsel and we negotiated the best legal services contracts that we could with those panel firms to represent our insureds and we achieved a $2.5 million legal expense last year under budget. So we really had some success last year.

This year we're going to do even more. We've looked at being proactive in the management of our litigation. Each of our five regions have specific litigation management plans in place to make sure that we're avoiding litigation where possible and paying the right thing before the case goes into suit and that when we go into litigation that we are proactively managing the timing of the litigation and our opportunities to settle or resolve those claims, not when the court tells us we have a trial date or mediation but when we believe we have the right information to make an offer and resolve a claim if our insured has liability in that instance.

We also have a vendor panel review in place. You can imagine the thousands of vendors we use across our 22 states when we adjust claims, everyone from appraisers and estimators to accountants and service providers and clean up vendors. We're looking at that across our organization to make sure that we have the right vendors in place, that we have the right contracts in place with those vendors and that we get the benefit of the economic clout that we have if we're using vendors across our footprint and we negotiate the best contracts possible, again to control those loss adjustment expenses. We're also looking at cycle time, how can we measure the cycle time of our claims, how can we make sure that we're doing everything possible to pay what we owe as early as possible in the life of that claim, avoid litigation or resolve litigation as quickly as possible.

Selective Claims is ready for the journey ahead. What we've done after analyzing our operation thoroughly over the past two years is put in place a formal, strategic initiative program where we are identifying opportunities across our claim organization again from the service center through the field and in corporate claims to make sure that we are ready for Selective's growth and that we can handle that growth in a scalable manner in our claims operation. We're looking at our technology: Do we have the best tools available for our claims staff? Do we have document management systems and recovery and fraud analytics that's the best available in place to make sure that we are recovering those dollars when someone else is responsible, that we're avoiding payments that are not appropriate and putting everything in place in our processes and our effectiveness to make sure that we're really contributing to the bottom line at Selective?

So we're ready for the journey ahead and I appreciate the opportunity to talk with you about what we're doing in Selective Claims to support the success of the company. Thank you.

Dale: Thanks, Mary. You heard Mary talk about her picture being indicative of the speed of response. I'm not sure what the guys that put the slides together were trying to say about me. They say this had something to do with my personality. And I think they meant it as a slam but I felt pretty good about it. I wear it as a badge of honor: Straight and true, right down the middle. That's the way to go.

Anyway, I'm here to talk to you a little bit about -- you've heard about Selective. You've heard about the big picture. You've heard about what we do, how we do it over the course of the day. But I thought it would be important to look at not only that but also look at our risk profile so you could understand really the umbrella picture of Selective, so you'd see and analyze where we are and where we're not also and how that fits in with the investment decisions that a lot of you guys are involved in.

If you look at our risk profile from an underwriting perspective, you can see we have a 22 state footprint. We've talked a lot about that. But what's important not only about that 22 state footprint of where we are but also where we're not. You don't see heavy concentrations in Florida or Alabama, Mississippi, Louisiana, Texas, California, some of the more difficult environments from both a catastrophe standpoint and also from a legal and regulatory standpoint. We picked those 22 states because of the favorable legal and regulatory environment that we see there and our belief that we can make long-term underwriting profits in those states.

We also talked a little bit about the 13 state footprint, again personal lines. We're choosing those states based on where we think the profitability can be achieved, so that's very important to our long-term perspective.

We have also the commercial lines business that you heard about, 86 percent of our business. That is low hazard, small type risk. Our average account size is $11,000, so you're not talking about Fortune 500 style accounts or even Fortune 1,000 style accounts. These are low hazard suburban and rural commercial enterprises so you don't see those big city type risks. That's just not our cup of tea and there's a lot of benefit to that ultimately. We just don't have agents in the big cities. We don't have the underwriting skills to talk about 20 story/50 story buildings. So we stick to our knitting and where we have comfort and understand the risks.

We have $1.6 million per agency so deep penetration of our agency plan. If you go back a couple of years before we appointed about 200 agencies, we were up and around almost $2 million per agency. So we've added 200 agencies over the last couple of years. We're about being number one and number two in our agents' office. Predominantly that's because the way we look at it is it's easier to be a good underwriter when you get the first or second look at a piece of business as opposed to the seventh or eighth look at a piece of business when nobody else wanted it. Those are, I think, important things about the underwriting risk profile for Selective.

If you look at our reserves, you heard from Mary that we've got over $2 billion in reserves. I think what's also important is we've got only a 3.7 year duration on those reserves, so a lot shorter duration which is very reflective of that small commercial enterprise that we ensure. The smaller enterprise tends not to have the latent liability exposure, tends not to have the lawsuit that develops five and ten years out that ends up having a large negative impact on the financial results of the company.

The other thing is that we do a full and complete actuarial analysis of our reserves each and every quarter. A lot of times you've seen press releases or discussions in conference calls from other carriers where they've said that in two quarters or three quarters they were going to have a complete reserve analysis done and everybody held their breath waiting for how big is the charge going to be. We do a ground up reserve analysis every single quarter so we can stay on top of the reserves, we can adjust them accordingly, we can maintain balance sheet integrity so we don't have surprises coming through as a result of reserve development. Our reserves are very well behaved as a result of that also.

Our actuarial department is very robust for a company our size with the amount of fellows and students that we have and associates that we have. We put those actuarial resources to bear not only on the reserving process but also on the pricing process and on the planning process to make sure that all of that ties together so that we don't have surprises coming through in any facet of our overall business. We think that's very important to our ability to maintain financial integrity.

If you look at our reinsurance programs, we're very conservative buyers of reinsurance. We buy to a one in 171 year event. So we have a lot more reinsurance than a lot of our compatriots out there buy. In addition to that, we buy reinsurance much the same way that you and I would buy our personal insurance. We buy it to cover the potential for catastrophe. We don't buy it to make up for poor underwriting. That's not what we're trying to do. So as a result, you see only four percent of our gross premium gets seeded out in the way of reinsurance. Now that illuminates the flood business, which is a whole different thing. The flood is the National Flood Program which is 100 percent reinsured by the federal government. So when you look at our 10K you've got to make that adjustment to understand what the real usage of reinsurance is.

Average reinsurer has an A average credit quality. Again there we go through a full financial analysis of all reinsurers on our program, make a determination as to what extent do we want to allow them to play and to what style of risk do we want to allow them to play on, whether it be the casualty side, the catastrophe side or the property per risk, again based on the individual financial analysis for that particular reinsurance company. So we do freely check reinsurers off on occasion when we're not comfortable with their overall financial credit quality and as a result of that we also have a very low reinsurance recoverable to surplus percentage there, only ten percent. So we're in pretty good shape there too. Again, conservative buyers and conservative users of reinsurance.

If you look at our capital and liquidity profile, we're right now at a premium to surplus of 1.7 times. We have talked in the past that 1.8 times was a target for us so there's still some headroom there. You saw in the Fitch ratings release just last week indicated that they felt that as long as we were below a two to one premium to surplus, so again a lot of headroom in terms of what the rating agencies believe in terms of our capital adequacy.

We have a debt to capital of only 23.5 percent, 17 percent on an adjusted basis. So if the capital markets ever reopen, which I hope they do, we've still got some room in terms of debt there also. So definitely a nice position there. We have regularly been at the 25 percent debt to cap kind of level and one that we feel very comfortable running the company at, so we've got some room in terms of debt.

The average life of our current long-term debt is 39 years. If I'm still around to negotiate the repayment of that at Selective that means my 401K never recovered, which is a bad sign for all of us. But I think somebody else will have to do that. The nice thing about that is you don't have a difficult capital structure to worry about. We don't have refinancing to worry about. You don't have large bullet payments coming due in the next few years, particularly given the fact that the capital markets across the river there are not very open currently for financial institutions. So we're in very good shape with regards to that, so we consider that very clean capital.

We have interest coverage of 4.6 times, access to a $50 million line of credit at our holding company. So again, strong liquidity. We have over $200 million in cash, much more cash than we've ever really maintained but we began building that in the late 2007/2008 kind of timeframe because of what we saw in the financial markets and felt that it was more prudent to maintain a higher level of cash position.

If you look at our investments, that's been an area that we have had a lot of overhang and one of the reasons why we asked Kerry Guthrie to come out today to talk a lot more about our investments to make sure that you guys understood precisely what we had there. But we've always run a pretty conservative portfolio. You can see here a AA+ average quality, a 3.5 year duration on that portfolio so it matches up pretty well with our liabilities. A very strong quality and I'd say conservative. We have had some overhang because of the alternative investments that we're in but I will point out to you that those alternatives have routinely outperformed the S&P500 and outperformed our normal equity investments over the 13 years or so that we've had them. The other thing I'll point out is that if they were treated in the accounting world the same way that equities were treated, they wouldn't be an issue at all but we'll talk a little bit more about that and get a little bit more detail from Kerry about what that means for us and where we're going with that.

With that, I'll turn it over to Kerry to talk about our investment portfolio.

Kerry: Thank you, Dale. Good afternoon. For all of those who haven't met me, I'm Kerry Guthrie. I've been at Selective in the investment area for the last 21 years and the last eight as the Chief Investment Officer.

Dale showed you the road that he got. Look at the road that I've got, a winding road with a blind curve approaching. And really when you think about it, that really kind of sums up the investment environment. You've got a blind curve coming up there, a lot of uncertainty going on, what's coming up next? We're dealing with a global deleveraging that's going on right now, a deep and prolonged recession and really unprecedented government action and intervention that it really remains to be seen what type of unintended consequences come out of that.

What I hope to achieve today is to help you better understand a little bit more about Selective's investment philosophy. We're going to look at our portfolio construction, look at the challenges that our portfolio faces and we do have some challenges, look at what actions we've taken to reduce the overall risk in our investment portfolio and then leave you with what is our current investment strategy.

Let's start with our bond portfolio: A high quality bond portfolio, $3.1 billion in assets, 85 percent of the portfolio is rated AA or higher, 99 percent of the portfolio is investment grade. It's very well diversified. We invest in all the major fixed income segments. Our largest segment is the municipal bond portfolio, 58 percent. We kind of view that as the foundation of our fixed income portfolio. We like it because it provides a very good risk adjusted after tax return for a P&C insurance company.

If you'll notice, there are no preferred stocks in our portfolio, no hybrid securities. We had no exposure both on a common or a preferred basis to Fannie or Freddie Mac.

AA+ average rating, Dale had mentioned that and I think that really serves as kind of a measure of stability and gives us a little bit of a margin of safety as these economic conditions unfold. I'm going to walk you through most of the major segments of our portfolio and we'll start with municipal bonds: $1.8 billion market value, AA+ rated, underlying rating is a strong AA. Selective never really relied on secondary insurance to do our credit analysis for us and you can see we still have a AA rated portfolio without insurance enhancements. Very well diversified, we like this portfolio. A third of it are in general obligation bonds. And in this environment, they have taxing authority, the ability to raise revenues. Two-thirds of the portfolio are in various types of revenue bonds, predominantly essential services like transportation, water and sewer, electric systems revenues. These type of bonds have dedicated revenue sources so when times get tough they've got a dedicated revenue source that hopefully is an essential service.

Very well diversified by sector and what I'd like to do now is kind of walk you through some of the challenges that each part of these portfolios face. I mean clearly the macroeconomic picture is weighing on all financial assets. We're in a recession. We're in a deep recession and the longevity of that recession is still pretty much unknown. So significant challenges. These kinds of pressure will put pressure on revenues for municipalities, for government entities. We're going to see a lot of press, we've already seen a lot of press about state and local budgets being under severe pressure. We would expect to see some kind of weakening in the credit profiles of municipal bonds and we would see some ratings volatility.

I'm going to make some observations again about each of the segments. We're very comfortable with the underlying credit profile of this portfolio. We would classify it as squeaky clean, very little exposure to healthcare and hospitals. Less than one percent of the portfolio is rated below A. We've seen very little ratings action, even to date, given all the market turmoil that's going on, so very few downgrades. We've actually seen some upgrades.

We have taken some action in the first quarter. We've moved $1.3 billion of our portfolio into the held to maturity category. Why did we do this? Selective is a buy and hold investor and these securities pretty much would have been held to maturity anyway so why not move them into held to maturity, protect stockholder equity in case we see stock market erosion in price either due to credit or due to rising interest rates.

$500 million remains in the available for sale category. These are our highest quality bonds, the most liquid bonds. So if we had a need to reduce this sector, to reduce this segment, we've got a liquid source of bonds to sell. We also reduced our exposure almost $40 million in some state GOs. These were credits that we felt showed a weakening credit profile, states like Florida and Illinois. In fact, after we sold our Illinois bonds, the state was downgraded.

We've tried to be proactive in positioning this portfolio for the economic downturn. We've reduced exposure to some of the more economically stressed states. Examples are California, Michigan, Ohio. Several years ago we started to say let's not add any more exposure to Michigan or Ohio, they're really going to feel this auto downturn. So those are the types of actions we've taken. We've actually reduced those portfolios. California we have less than three percent exposure. Michigan is less than one percent and Ohio is about four percent. And we talked about some of the sector diversification but this portfolio also has significant geographic diversification.

Let me take you to our second largest segment which are corporate bonds: $407 million, about 11 percent of invested assets, average rating A. This is a very well diversified portfolio and the largest sector there is financial. Now 23 percent are allocated to financials but that's an underweight if you consider the Barclay’s Global Corporate Bond Index which is about 35. So we've been underweight in financials for quite some time.

What keeps us up at night worrying about corporate bond credit? It's pretty easy for us and Dale touched on it, it's really the access to the capital markets. If you're a company out there and you've got heavy financing needs and the markets close down the way they did after the Lehmann bankruptcy in September, you've really got some problems. So that's really at the top of our list that really if you ranked them one through ten, that's one through five right there.

The good news is the commercial paper markets are flowing. Investment grade bond issuance is really quite heavy right now. It's broadening out with a lot of new issuers coming to market. Last week, Simon Properties, a mall REIT, you never would have thought that they would have gained access to the capital markets, but they came with a half a billion dollar deal upsized to $650 million. So those are good signs in the capital markets.

Some high yield investors have also been able to issue bonds. So these are really good signs that gets you a little bit encouraged. We want to see some more broadening out of the issuers. Another thing that we worry about are declining corporate profits. I mean there's a lot of economic uncertainty out there and as corporate profits decline as an investor in fixed income you worry about credit erosion.

And we're clearly going to see some rating turbulence here. We would expect that to be clearly on the downside for a bias.

Some observations: We see high grade corporate bonds as an opportunity in this market. We actually think it has some value on a risk adjusted basis. We are looking at new purchases here with spreads near historical wides that we saw back in November, so really attractive spreads.

Things that we're looking for in our new purchases are companies that have very limited financing needs. They're accessing the capital markets because it's attractive to do so on an all in cost basis. We're looking at recession-resistant companies, strong balance sheets, clearly avoiding the troubled sectors and we're really focusing on the short part of the market to further reduce credit risk, five years, three years, once in a while six year paper.

We've been pretty fortunate about four or five years ago we completely eliminated our auto exposure. We have no Big 3 auto exposure in the portfolio. I touched on before we're underweight in financials. We're also underweight in cyclicals given the whole uncertainty of the economic environment. and our portfolio I would characterize as high quality and has performed quite well.

Let's take a look at residential mortgages. This is the housing market right here: $352 million portfolio, about ten percent of our overall invested assets, high quality AA+ average rating. I showed you the portfolio really bifurcated into agency and non-agency. Agency is about 68 percent of the portfolio, non-agency 32 percent.

I'm going to talk about challenges. There are many here. Everybody knows about the strain on the housing market. Unemployment continues to rise, which is really putting pressure on home values. We'd really like to see a bottoming in the housing market here. The non-agency market has really become quiet illiquid and we're going to see some ratings turbulence. The ratings agencies have clearly changed their models and we're seeing some downgrades in this non-agency sector.

But I want to focus for this sector a little bit more about regulatory and political risk. We see it as significant and I want to focus on two things. The first was leading up to the bailout of Freddie and Fannie, we were getting a lot of questions from analysts about what's your exposure to the agencies because their financials were clearly deteriorating. So when they decided to bail them out, it bifurcated the market. Agency paper, which kind of had the implicit backing of the U.S. government, really rallied quite strongly and the non-agency paper really became out of favor and is challenged. The other area of political risk that's floating around out there is this crammed down legislation that could potentially have a big impact on this market. Still went through the House, still has to go through the Senate. Really not sure what it's going to look like but this is another piece of legislation that could have unintended consequences if they really mess around with the bankruptcy laws.

Let's take another look at, a further look at the observations here. Our total residential mortgage portfolio, the good news is these are amortizing securities. Every month when people pay their mortgages, we get principal back. Last year we received $56 million for 15 percent of the portfolio in principal paydowns. That's an average of about $14 million a quarter. In our prime portfolio, which is the one that's under pressure, we received $23 million or 17 percent of that portfolio back in principal paydowns. It's a $113 million portfolio. That's about 13 percent of stockholders' equity.

And I just want to show you a little bit of a snapshot. We do a lot of credit analysis, a lot of work analyzing these portfolios but I'll just give you a couple tidbits here: Average FICO score of this portfolio of 726, very, very high into prime. And the average loan to value at origination less principal paydowns, 67 percent. So it gives you a lot of cushion should the price deteriorate in the housing markets.

This portfolio, if you look at the entire portfolio and look at the cumulative losses in the pools like below us, nothing that we own, the cumulative losses of this portfolio are 0.1 percent. So again, showing very strong credit characteristics. Yet, the portfolio has an average market price of 62. So what we would say is the liquidating value is really much, much lower than what we think the fundamental value of this portfolio is.

Let's look at a sub-sector of the residential mortgage-backed portfolio, Alt-A. Alt-A is a pretty dirty word right now, just like subprime was. It's a $41 million portfolio, one percent of invested assets. It carries a AA rated average rating. We like the construction of this portfolio; 83 percent of the portfolio are in fixed rate mortgages which typically are more conservative and they're typically better credit quality than adjustable rate mortgages.

Challenges are pretty significant here. Again, due to the tightening credit conditions in the marketplace, refinancing risk is real for these borrowers. It's going to be very difficult. These loans are no documentation or low documentation loans so this would be a type of loan that would be difficult to refinance. All Alt-As are really viewed negatively right now in the marketplace, a very illiquid market. 2006 vintage, we'll talk about in a second, is really our challenge and we expect to see ratings downgrades.

Some observations: This is a prime portfolio. We halted purchases of Alt-A in the third quarter of 2006 as we saw underwriting standards deteriorate. We didn't like what was going on there. This portfolio has an unrealized loss of $38 million yet our challenge is really in the 2006 vintage. It's 60 percent of the portfolio, 3 percent of stockholders' equity. This is a prime portfolio though. We have all senior traunches in this portfolio, FICO score 710, loan to value 73 percent. Yet it has an average market price of $42. Again, we think that this portfolio could suffer some principal losses but $42 is no way reflective of what we think fair value is. So $34 of the $38 million loss in our Alt-A portfolio are in these 2006 vintages.

Commercial real estate, getting a lot of headlines right now, a lot of concern about commercial real estate. February 28th this was a $209 million portfolio, 6 percent of invested assets, average rating AAA, a very diversified portfolio. About a third of it is agency backed, predominantly Ginnie Mae, which is 26 percent. Ginnie Mae, for those of you who don't know, carried the full faith in credit of the United States Government.

About half the portfolio are in what we call fusion loans which are simply just a combination of very large loans and very small loans. So it's kind of a hodge-podge of loan size.

Challenges are pretty significant here. The current environment is really leading to a much lower demand for space. We've seen a lot of high profile liquidations in the retail space, Circuit City, Linens N Things stand out. These are not restructurings. These are liquidations which are causing a lot of vacancies and putting pressure at the operating level. So corporate bankruptcies are going to continue to pressure this area. It's going to put pressure on property values which is really going to lead to some significant refinancing risk in the commercial real estate space.

Our challenges are in our subordinated classes. The good news is that it's about four percent of this portfolio. I'll talk about that in a minute.

Some observations here: We've taken some actions in the first quarter. We sold $65 million of some of our seasoned CMBS portfolio. We did purchase $23 million of some more Ginnie Mae project loans. So this reduced our overall exposure by 20 percent but really changed the credit characteristics. You remember we had 32 percent in agency-backed. It's now 54 percent agency-backed. $100 million we moved into held to maturity. Again, these were securities we felt very comfortable owning. We think that the underlying fundamental value of those securities is not reflected in the marketplace. So let's move them into HTM and again protect stockholders' equity.

In the first quarter of this year we've already received $11 million in principal paydowns, last year received $18 million in principal paydowns, which was about 8 percent of this portfolio. The portfolio carries an average market price of about $94 for an unrealized loss of $12 million.

Our alternative investment portfolio, Dale mentioned this before: Less than 5 percent of invested assets. It's well diversified, six broad strategies: Private equity, distressed debt, secondary private equity, real estate, mezzanine financing which includes no real estate mezzanine financing and a small allocation to venture capital.

I want to touch on a couple of the strategies, first private equity. If you looked at the underlying companies in our private equity portfolio, generally they are the mid-market companies, not the large LBOs that you read about in the paper. We also invest in the secondary private equity market. This is one of the bright spots out there right now. The supply and demand imbalance is huge. There's estimated to be about $120 billion of supply that could come on the market from endowments and pensions who are really looking to raise money and improve their cash flow situation and maybe only about $15 billion of capital available. So secondary private equity buyers are going to be buying securities at very, very discounted NAVs.

We also have an allocation to distressed debt and that should be a strategy that does well in this environment as there's no shortage of distressed situations out there. So if you think about secondary private equity and distressed, that's about a third of our portfolio.

The challenges that we face here, really Dale touched on the accounting end of it. I just want to highlight the FAS-157 aspect of it because this was adopted in 2008. This really calls into mark to market accounting for these really illiquid private securities and it's added a lot of additional volatility that wasn't there in prior years. Global asset declines in value has really put correlations that were assets that were very low correlated in the past and everything became correlated in 2008.

The M&A activity has slowed due to the credit crisis so it's really slowed down the whole velocity of contributions and distributions. And we do report these generally on a quarter lag and the sector really is a very illiquid market because these are private securities. Performance has been excellent though, 2700 basis points over the S&P in 2008 and 1,000 basis points per year since 1997.

And really the approach we've taken with this portfolio: No new commitments, we do have assets that are the private equity structure, no exposure to hedge funds, about $119 million unfunded commitment at the end of 2008. We would expect that commitment would be called on maybe over the next three to five years, maybe the next four to six years. It really depends on how the market evolves.

We have seen some reductions from a few general partners in these uncommitted calls in the first quarter of 2009. We expect that distribution and contributions will remain low. We are not seeing any investment activity that would indicate a large pickup in contributions. We talk to our general partners very frequently and we're awaiting the 12/31 NAVs.

Let's talk about the equity portfolio: Three percent of invested assets at year end. This portfolio has outperformed the S&P500 each of the last nine years. Well diversified and I want to talk about three of the segments of this pie: Core portfolio, internally managed assets is about half of our portfolio. I would say this has a large cap value bend to it. Another part of the portfolio I'd like to talk about is the MLP portfolio or the master limited partnerships. This is a high yielding strategy. Distributions are very high. This portfolio yields about 9 percent today and generates about $1.5 million of free cash flow each year. We also have a slice up here called proshares ultrashort. This is a position we put on in the first quarter. It really is one of these ETFs, exchange traded funds that really acts inverse to the overall market. So the Dow Jones, if it goes down 1 percent our asset would go up 2 percent. It's inverse and at a multiple of two times. We did this to take our equity exposure down very quickly. Very concerned about the current economic and the current capital markets. The volatility in this market we would classify as high risk. So while we have this high risk environment we felt it was prudent to take that exposure down.

Clearly some of the challenges for equity investors are out there. We are in a bear market. From November, 1997 until March 6 of this year the S&P was down 55 percent. Extreme volatility, declining corporate profits and probably one of the key things out there are really limited visibility into future corporate earnings. A lot of business models are really uncertain as to how the year is going to shake out let alone how the quarter is going to shake out. There's a lot of heightened regulatory and political risk for equity investors. Which industries are going to be the winners? Which are going to be the losers? And what companies are going to win and lose under the new administration?

Some actions we've further taken in the first quarter: We've reduced the exposure to about $90 million on a gross basis and about $50 million on a net basis. That takes it down to about 1.4 percent of invested assets or about 6 percent of stockholders' equity. Again, we feel this allocation is prudent in this environment. Until we see some improvement in the economic outlook we think that will fit here at a lower allocation.

Investment strategy for the current environment: We're recognizing that we are in a high risk investment environment and we feel that our current strategy is quite simple: Safety first, it's okay to miss an opportunity. We're going to preserve capital and we're going to keep higher short-term balances and additional liquidity until the picture improves. New purchases, we're going to increase our allocation to government and agencies and investment grade corporate bonds. We're going to be looking for corporate bonds, again, that can withstand a deep recession.

We're actively looking to reduce portfolio risks where appropriate. We already talked about reducing our equity exposure to about 1.5 percent of our portfolio. We reduced our CMBS portfolio 20 percent as well as changed the agency-backed component of that from 32 percent to 54 percent and we've also moved about $1.8 billion into held to maturity of our fixed income portfolio to protect stockholders' equity.

When you think about Selective's investment philosophy, what I'd like you to remember is that it's a conservative buy/hold strategy. We make our investment decisions based on fundamental analysis and we have a value style that runs through the entire portfolio even on the fixed income side. And we'd like to consider ourselves long-term investors. This style right now might be a bit out of favor as you're hearing more call as well, you can't really buy and hold anymore, you need to trade the market. And fundamentals really are becoming less important as the market trades on emotion and fear. But we believe that fundamentals will matter again and that the market will recognize value in the marketplace.

What I'd like to leave you with today, we talked a lot about the challenges in our portfolio. But I'd like to say that the confidence that we have in the strength of our investment portfolio, I'd like to summarize this way: 85 percent of the fixed income portfolio is rated AA or higher; 99 percent is investment grade; we have a AA+ average credit rating that we think will serve us well in this uncertain economic environment and that's going to be a margin of safety for Selective.

With that, I'd like to turn it back over to Dale.

Dale: Thanks, Kerry. Here's my road again. Just a couple of closing items that we wanted to kind of go over. You saw this slide in Greg's presentation. It's about long-term shareholder value and that is what Selective is about. It's about generating long-term shareholder value. And you can see here what's happened with our book value per share over the last few years.

And you do see a dip here in 2008, a little bit of rough waters obviously that we're all enduring right now. But if you get behind that a little bit and look at what has transpired, you can see there's been a lot of non-cash reductions in book value in terms of other than temporary impairment charges, fixed income market declines, equity market declines, pension charge which is really related to the same thing in terms of our invested assets that we had in our pension trust fund, declining in value and therefore generating a pension charge.

If you look at all of that and then you understand that behind that we only had two bonds from a single issuer that was related to financial distress of that issuer, resulted in a $9 million loss or about $0.12 out of that $3.97. The rest of those are purely liquidity generated market declines. You've heard a lot about what Kerry said regarding the quality of the portfolio. That doesn't mean that some of those won't ultimately turn into some financial distress related. But at this point in time we've actually faired very well I think and it's a tribute to Kerry and his guys in terms of the quality of the portfolio that they've constructed to maintain the value there.

You also heard Kerry talk about we moved $1.8/$1.9 billion of bonds into the held to maturity category. That was, again, because of our style of investing really is a buy and hold. So if we are going to be buy and hold investors, why not take advantage of the held to maturity category and remove that volatility in terms of market value fluctuation and the impact that it has on our equity portfolio or on our shareholders' equity.

We also reduced our equity exposure that Kerry talked extensively about there, again to reduce the volatility that we have out there. So we think it's pretty important to note that and I think also important to note, we've gotten a lot of grief in terms of the alternative investment portfolio. If you were to liquidate the entire portfolio, to write it all down to zero, that's only $2 per share on our book value per share. So $16.84 is what you saw on the last slide. That $16.84 goes down to $14.84 which is still above where we're currently trading. So it's not that big of an issue. And one other thing, we're very committed to that alternative portfolio. It's performed fantastically over time and we wouldn't have the discussions about it if not for the overhang that the accounting for it creates in terms of it coming through the earnings of the company.

If you look at 2008, our equity holdings performed a little bit better than the S&P500 but our normal equity portfolio was down 34 percent. The S&P500 was down 37 percent. Our alternatives were down only 10 percent. So they performed substantially better than what we had traditionally invested in. Unfortunately that negative 10 percent has to come through our operating earnings and has really created a lot of overhang in our stock. I think it's important to note that and understand that dynamic.

But because of that overhang, we are looking for ways to remove that overhang from the overall scheme of things. It's not an easy thing because of the nature of alternative investments. So although we're committed to them, we also recognize the risk that that places in an investment in Selective stock and we're doing what we can to adjust that.

Another thing that we wanted to talk about today, didn’t want to have an Investor Day towards the end of the quarter without giving an update on the quarter. Particularly, we do have some news here that we wanted to talk about. You've seen a lot of other news releases from some of our compatriots. This slide is not in your schedule here. We didn't want people running out before the market closed. We'd have issues around that.

You saw some news releases regarding severe weather. We also have some severe weather throughout our footprint, both in terms of winter freezes and also in terms of windstorms, tornado losses too. The tornado season now seems to be 365 days instead of just the summer. You can see we have approximately $17 million of weather related losses in excess of what we would normally see in the first quarter. So that's above what our expected was. So that equates to around $0.20 per share. So some pretty significant weather related losses that we had in the first quarter.

We've talked about the alternative investments. We've not yet received their fourth quarter reports. Obviously you're reading the same reports, news releases that I'm reading or news articles around KKR and Blackstone talking about significant negative reports in the first quarter. We've not received ours yet. Traditionally, most of them come in towards the end so we'll expect to see them next week, the week after or maybe even the first couple of weeks in April before we get those full reports in. Their year-end tends to take a little bit longer because those are the full year-end audited statements that we get. So I don’t really have any update for you at this point in time with regards to how they've performed.

Finally, you heard from Greg commercial lines pure price in the first quarter was a definite positive sign. We had only a negative 1.3 for the full quarter. That was a negative 1.5 in January and a negative 0.9 in February. So again, the trend line is we're starting to see some mitigation around those and expect to see that turn to the positive towards the middle of the year and that's what we're really looking forward to.

So I think a little bit of positive there, a little bit of negative obviously with the weather but on an overall standpoint we're in this for the long haul, in this to appropriately manage the operation to generate long-term shareholder returns for our shareholders and that was, again, one of the reasons why we got into alternatives in the first place. They traditionally definitely generated much better long-term shareholder returns.

With that, I wanted to give you -- tee up another clip here. This is Lew Dryfoos. He's a Pennsylvania agent for us, talking about Selective and talking about our long-term perspective.

VIDEO

Dale: I think Lew says it well. Although there's going to be some short-term lumpiness now and again, Selective is a company that knows where they're going and I hope that's come through today as you've heard presentations from all the different people within the company about what we're doing, what we're working on and how we're making a difference.

With that, I'll turn it over to Greg Murphy for some closing comments.

Greg: Thank you. Thanks, Dale. And I hope you got a good sense of the real long-term foundation of financial strength that Selective's really acquired over the many years and what that really means to our agency plan. But really the three core things that we started this presentation with that I'd like to end with obviously is the superior field model and I hope that if that didn't resonate loudly from those four agencies, I've got to tell you you really have to think about that in terms of our success and how difficult it is to copy that model.

And then I think when you step back and look at the Ivy League of independent agents that represent us, it's truly and it's funny because we sit there, we look at our own surveys and Goldman Sachs does a survey of independent survey of agents and brokers twice a year. And I've got to tell you Selective comes out, in many cases we've been the top regional carrier, top number one or number two, in many cases always usually in the top ten of carrier performance, so that's just another totally independent survey out there in the marketplace that demonstrates our franchise value.

And then this whole process of this whole sense of the mine and the miner. And you have to have a deep mine to draw information from and you have to have excellent miners to actually extract that information. I think that what Brenda showed you today is the capability to deliver that information to the desktops of every one of our inside underwriters or our 100 field AMSs that underwrite our business outside is clearly a very powerful tool that altogether holistically will generate solid long-term profitable growth for the organization.

With that, what we'd like to do is open it up to any questions that we have in the room and then we will break for some refreshments afterwards.

Q: I have a question. It might be for Mary. Have you seen any change in your claim patterns that might be attributable to the economic situation?

Answer: Yes, I can. Since I've got the mic, that's fine. It's interesting too because the initial reaction for everyone is that as the economy gets into this kind of situation that your loss experience, particularly in worker’s compensation would worsen. And actually when you really look at the underlying data, it doesn't worsen because when you sit there from a construction standpoint and you figure out the workers that you're going to let go are generally the less experienced workers, you're keeping the more experienced folks on staff and that has a tendency to improve the worker’s compensation book.

The other elements though that you need to be careful of and you need to be mindful of is how do you look at the claims coming in and when they come in, in terms of looking for fraud elements because there are things that do happen in the stresses of the economy. And I will tell you, having our field people out there when if somebody's going to report a claim, for some reason that's easier to do over the phone. But yet, when I'm going to come out and see you as what we call, again, the CMS or the claims management specialist, the field claim person to put a name on it, and I'm actually going to come out and talk to you in your kitchen and understand how you lost your diamond ring or how this happened, for some reason that seems to have a big impact on customers in terms of when they report a claim. But those are all things that we are very mindful of and we look at fraud analytics in the claims that are reported to us on a day-to-day basis. Any other questions at all?

Q: Amit Kumar, Fox Pitt Kelton. Two questions. Just going back to the CAT loss number, is that a net loss number or a gross loss number?

Answer: Which CAT loss number are you referring to?

Q: The $17 million _____ gross loss number.

Answer: That is a net loss number. There could be some individual reinsurance on that account but our CAT loss program is at -- no, that's not a CAT loss overall.

Q: And secondly just going back to the pricing color, if you sort of go back and think about what you said in the time of Q4 call, are you instrumentally more positive or less positive on the rate commentary?

Answer: Incrementally more positive. For those that didn't hear the question, the question is based on the comments that we made at the year-end conference call, are we incrementally more positive or less positive about the rate movement? We are incrementally more positive about the rate movement and part of that is we're looking at holistically where that's coming from in the entire country and we're very pleased about where the velocity of the rate is coming from and the lines that it's coming from.

Q: That's helpful and maybe just one follow-up on that. Recently we've heard from the larger -- a lot of the larger carriers are in fact being extremely aggressive in price cuts. We've heard stories of 20 percent, 30 percent, 40 percent. Can you sort of comment maybe on your space what you might be seeing in terms of rate pressure from the competition and if any carriers stand out in your space in terms of being rate aggressive?

Answer: Yes, the answer to the question is are there carriers that play in our space that are extremely aggressive? And the answer is yes. There is a small cadre of carriers that are extremely aggressive to the point where they don't care about loss runs, they don't care about any of the core underwriting, they're just offering a price, in some cases as much as 15 to 30 percent below expiring and there's no way you're going to make that back up. As you heard from the panel today that you buy it today, I think Jerry mentioned this, you buy it today, don't come back to me in a year or two years from now telling me you need another 18 percent on it. But there is that element going on in the marketplace today and that I would say there's a small group of companies that are doing that and it's a mix of larger and smaller in that mix. I think that got to everything in your question I believe. Thanks.

Q: Just a couple questions actually for Kerry. Kerry, like I say, I have a couple questions. First, you've got, what, 24 percent of the equity portfolio in the ultra proshares short?

Answer: Correct.

Q: I guess my understanding, that's a levered instrument that doesn't actually -- it's kind of a lot of people talk to it and say it's not a good long-term investment.

Answer: That's correct.

Q: So it's kind of like a daily thing, so if revenues keep getting reset then you don't get the same short advantage I guess that you would in a true short position, correct?

Answer: Well, the way the proshares have worked is over the longer-term they've actually been fairly consistent with replicating what they were trying to short. So if over the long-term the market was down 10 percent, these were actually up more than 20 percent. But I mean to answer your question I don't think we view that as a long-term strategy. I think it's an ability to really what you're doing is reducing equity exposure very quickly as opposed to selling assets and repositioning the portfolio that way.

Q: And then can you give us any sense what you think the spreads are on the overall portfolio on the fixed income side since you ran? I mean I think munis have kind of come in and out and are probably flat versus a year ago, CMBS spreads are obviously blown out. Any general thoughts?

Answer: Well, it's hard to I think -- you'd have to look sector-by-sector. I think corporate spreads are definitely in. Munis had a very strong January, in fact up a little bit in February. There's probably going to be a little bit of an overhang because of the large supply that's coming to market. CMBS, I think had a very, very strong rally yesterday with a big equity market move. I don't think there's been any major changes in spreads since the end of the year.

Q: Just one last question on the portfolio: Given the Geithner program they talked about, is that something you think would encourage insurance companies to get more involved from a private standpoint in investing in some of these toxic assets that have been highly illiquid?

Answer: As an investor I think I read that you had to have $500 million, a fairly large stake, to get involved. So I do think from an investor standpoint it's going to make a lot of sense. I believe the government is backstopping it with a seven percent backstop. So in this market to say I can only lose 7 percent but I might be able to make 30 or 40 percent sounds like a pretty good deal. I think the bigger challenge is going to be are the banks going to be willing to sell those assets. And I think this strategy was tried in Japan when they had all their problems and they really had -- that was the big problem trying to get the banks to unload these assets. So it's going to be interesting to see as to whether or not -- it does appear early on that there's a large amount of potential investors that are interested in this program.

Q: Just so I understand the program, you're saying you have to have $500 million in assets or you've got to put $500 million into the program?

Answer: No, I think you have to put $500 million into the program. I think you have to have capital. It may not be $500 million but it was a fairly large number. But I haven't looked at all the details. We're hopeful that will get some of these illiquid markets flowing which I think would be probably the biggest positive.

Answer: The only other thing that we're looking at now is obviously the new changes that will be coming out of the FAS-B in terms of separating some of the product out between credit risk and liquidity risk and I think that's something that we're very curious to see how the accounting firms interpret that at the end of the day but that could have a little bit better balancing effect in terms of what you've seen in past quarters with respect to OTTI charges and what kind of level they may be at going forward. So that remains to be seen in terms of what the literature says versus the interpretation thereof. So that's another point to look at in terms of clarity in the future.

Any other questions? Thank you very much. We very much appreciate your attendance today. Thank you.

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