Enterprise Risk Management

Dale Thatcher
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Selective's Risk Profile – Underwriting

- Super-regional P&C company
  - 22-state commercial lines footprint (86% NPW)
  - 13-state personal lines footprint (14% NPW)
- Commercial lines consists of low hazard, suburban and rural risks
- Small to mid-sized commercial lines with $11,000 avg. account size
- High franchise value: $1.6M in NPW per agency (distributing through 940 independent agents)

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Selective's Risk Profile – Reserves

- Short liability duration of 3.7 years
- Carried reserves at 54th percentile of actuarial range
- Detailed actuarial reviews each quarter
- Smaller risks are more homogeneous and less complex which yields more stable results
- Experienced actuarial staff: 10 Fellows, 5 Associates, 12 students, 1 statistician

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Selective's Risk Profile – Reinsurance

- Buy reinsurance to 0.6% probability event (stochastic basis), 0.4% probability event (historic basis)
- "A" average credit quality of catastrophe reinsurers
- Ceded premium, excluding Flood, 4% of gross premium
- Unsecured net reinsurance recoverables 10% of surplus at 12/31/08
- 1% probability event = 4.7% net after-tax impact on surplus

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Selective Risk Profile – Capital & Liquidity

- Premium to surplus: 1.7x
- Debt-to-capital ratio of 23.5%, 17% adjusted
- Attractive debt repayment schedule
  - $250M long-term, average life of 39 years
  - Near-term expiring debt of $12M in 2009 & 2010
- Interest coverage ratio of 4.6x operating income at YE 2008
- Access to $50M line of credit, expiring in 2011
- Sustainable growth rate of 5%
- No derivatives, off-balance sheet or unusual transactions

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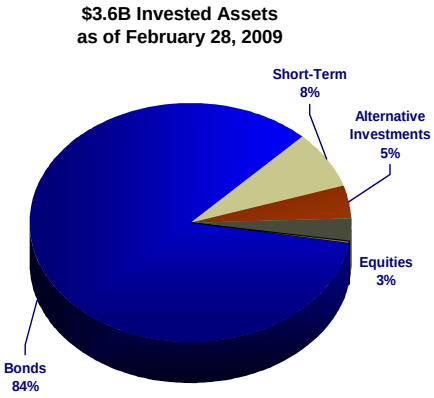
Selective Risk Profile – Investments

- Conservative investment portfolio with average "AA+" credit quality
- Portfolio duration of approximately 3.5 years including short-term investments



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