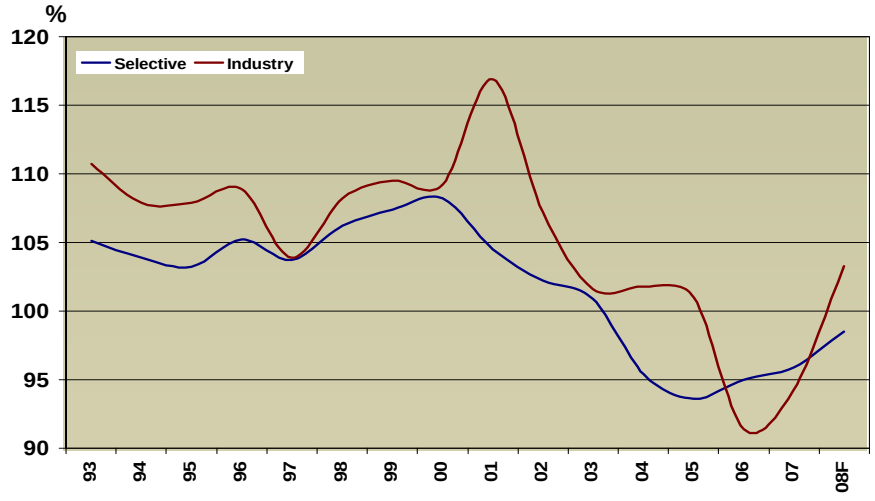
The Journey Continues with Sound Strategy

Greg Murphy
Chairman, President & CEO

Commercial Lines P&C Statutory Combined Ratio



Source: A.M. Best

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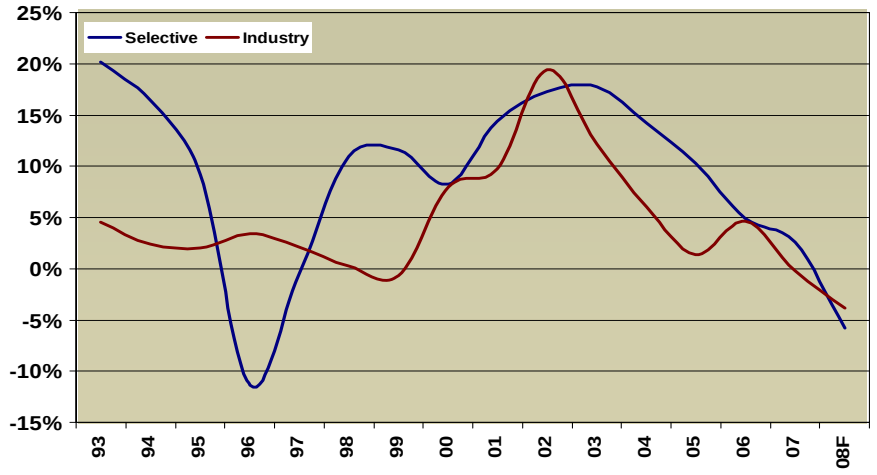
Commercial Lines P&C Statutory NPW Growth



Source: A.M. Best

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Who We Are

Selective is a High-Tech, High-Touch company writing commercial and personal lines business in 22 states through 940 relationship focused independent agents. We deploy leading edge technology to provide an ease of doing business, supplementing our excellent agency relationships.

Strong Cycle Management that Balances Growth and Profitability

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Our Strategy is About…

…creating and capturing value

…managing information to make better decisions creating long term profitable growth

…competitive positioning and sustainability

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Competitive Advantages

Ahead / Behind / On Par	Nationals	Regionals	Estimated Years of Advantage
Relationships	Ahead	Ahead / On Par	3-5
Field model	Ahead	Ahead	3-5
Safety management	Behind / On Par	Ahead	2
Ability to execute	Ahead	Ahead	2
C/L predictive modeling	On Par	Ahead	2-3
P/L predictive modeling	On Par	Ahead	1-2
Small business straight through processing	On Par	Ahead	3

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Competitive Advantages

↑ Ahead ↓ Behind ↔ On Par	Nationals	Regionals	Estimated Years of Advantage
Technology: agency integration	↑	↑	2
Technology: CL customer self service	↓	↑	0
Information Management	↔	↑	1-3
Cycle Mgmt Tools: DSM	↑	↑	1-3

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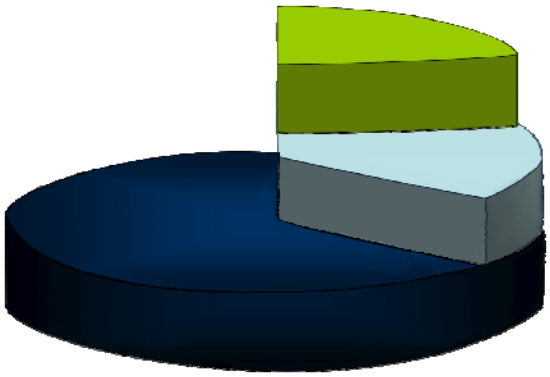
Strategy is About Increasing Market Share

Regional Carriers Wrote 23%
of 2007 PL Premiums or $52B



* Source: IIABA 2007P-C Insurance Market report (2-09)

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Personal Lines - $115 Billion Opportunity

How Written:

- CSRs place business based on price and ease of doing business

Keys to Success:

- Relationships are critical to being in the game
- Operational and technological efficiency
- Automated underwriting
- Pricing precision

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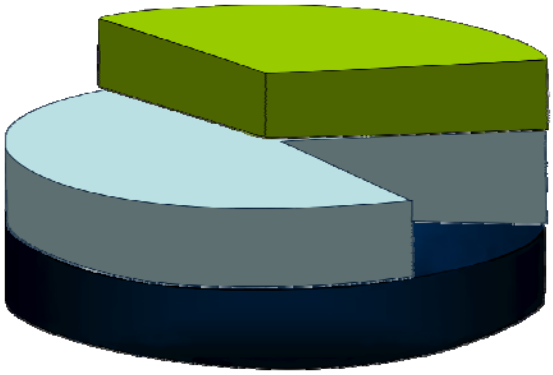
Strategy is About Increasing Market Share

Regional Agency Carriers Wrote 32%
of 2007 CL or $83B



In 10 years regional companies increased
C/L market share 20%

Source: IIABA 2007 P-C Insurance Market report (2-09)

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Greenfield Growth Opportunities

State	Total Statewide DPW ($M)	Current Market Share	Premium at 5% Market Share
NJ	8,819	4.4%	441
MD	3,729	3.0	186
RI	881	2.6	44
PA	9,725	2.1	486
NY	18,771	1.0	939
All other	80,512	0.7	4,026
Total	122,437	1.1	6,122

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Greenfield Growth Opportunities

State	Current Share of Wallet	Most Recent Agency Commercial Lines Premium Volume ($M)
NJ	13.6%	2,655
MD	10.0	1,174
RI	18.5	283
PA	11.4	2,215
NY	8.3	2,060
All other	5.9	10,733
Total	8.3	19,120

18% Share of Wallet Results in $3.4 Billion DPW

*Includes agents appointed prior to 2006 only
Source: Highline Data

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We Look at the Market in Three Distinct Components

	Opportunity in 22 State Footprint
Small Business (up to $25K)	**$23 billion**
Middle Market ($25K to $250K)	**$54 billion**
Large Accounts ($250K to $1M)	**$21 billion**

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Small Business - $23 Billion Opportunity

How Written:

- The decision makers are the Agency CSR or the Producer
- Flows through path of least resistance

Keys to our Success:

- Must have relationship to get in the game
- Systems integrate directly with agents
- Underwriting templates with predictive modeling increase throughput
- Insured self-service
- Broad underwriting appetite

About 30% of our book is small business

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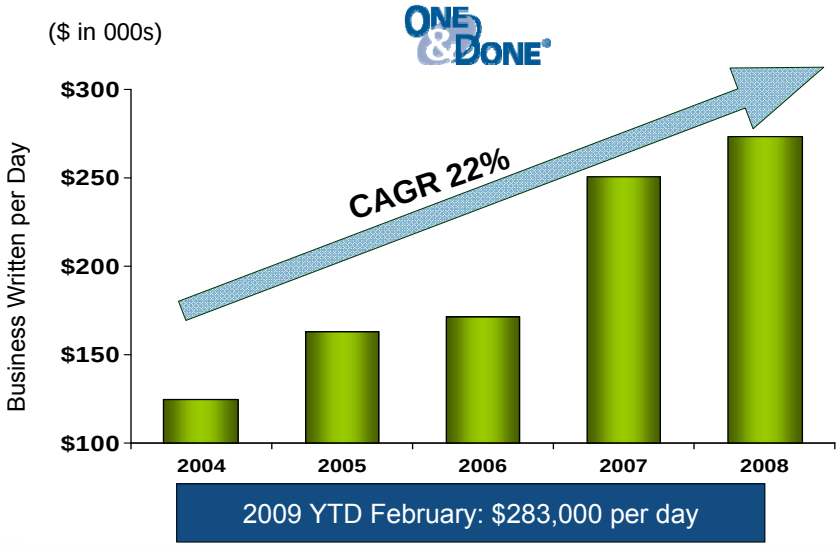
Automated One & Done® New Business



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Small Business Profitability

Retention

- 1.5 points better than policies over $25,000

Profitability

- A 3-year loss ratio of 2.2 points better than policies over $25,000

Price Sensitivity

- Small business policies have significantly less rate modification than policies > $25,000

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Middle Market Business - $54 Billion Opportunity

How Written:

- Agency producer has business ready to quote
- Marketing manager wants a price and an answer quickly

Keys to our Success:

- high tech x high touch= ht^2
- AMS has capability and authority to issue
- Systems integrate directly with agents
- Strong underwriting and pricing enhanced by predictive modeling
- Comprehensive safety management solutions
- Expanded product capabilities

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Middle Market Profitability

AMS compensation guidelines

- Measures growth **and** profitability
- No pure growth objectives

Strategic Business Units

- Product portfolio by market segment
  - Specialty
  - Mercantile and Service
  - Manufacturing
  - Contractors
- Underwriting authority guidelines
  - Not a market
  - Not an appetite

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Large Account Business - $21 Billion Opportunity

How Written:

- Agent-controlled accounts or new prospects that want customized solutions

Keys to Success:

- Custom safety management solutions
- CMS provides service and customer knowledge
- Actuarial unit for target pricing
- Sophisticated underwriting

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Solid Cycle Management Critical to Profitability

In 2008...

- Submissions continue to be strong
- Hit ratio down 50%
- New business down 40% to $20M
- Pure price down only 4%
- Retention remained strong at 81%
- Combined ratio – 101.7%

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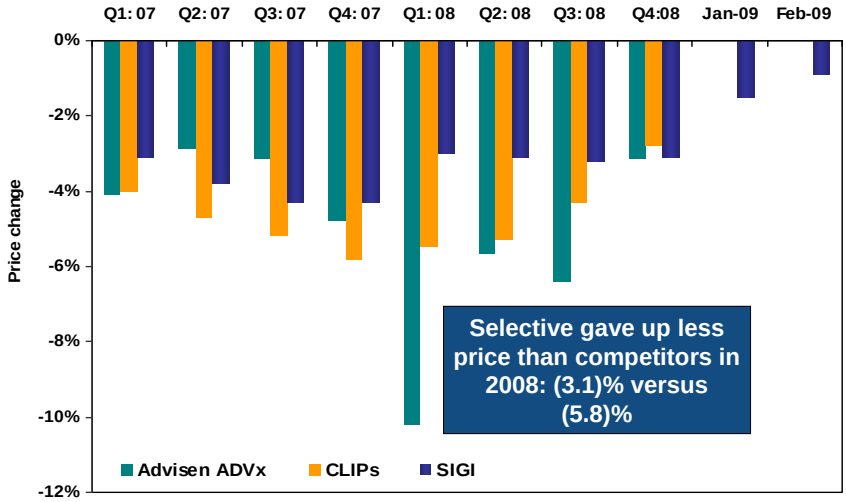
Commercial Lines Pricing
Key to Underwriting Improvements



Selective gave up less price than competitors in 2008: (3.1)% versus (5.8)%

Sources: Advisen and Tillinghast CLIPs

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Financial Strength to Support Profitable Growth

- Enterprise risk management
- Conservative investment strategy
- Strong reinsurance program
- Disciplined reserving practices

A.M. Best rating of “A” or better for 75 years, and “A+” rated for past 47 years

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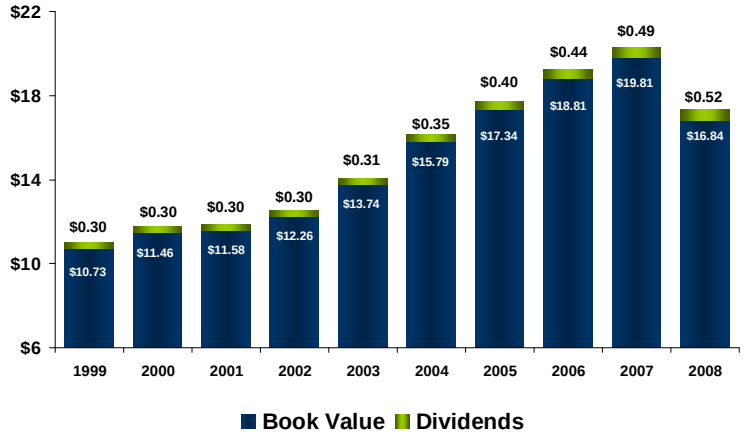
Long-Term Shareholder Value Creation



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