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Selective Insurance Group, Inc. (SIGI)

Q2 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to Selective Insurance Group Second Quarter 2026 Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. Instructions will be given at that time. Please be advised that today's conference is being recorded.

I would now like to turn the call over to Brad Wilson, Senior Vice President. Please go ahead, sir.

Brad Wilson

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

Good morning. Thank you for joining Selective's second quarter 2026 earnings conference call. Yesterday, we posted our earnings press release, financial supplement, and investor presentation on the Investors section of selective.com. A replay of today's webcast will be available there shortly after this call. Joining me are John Marchioni, our Chairman, President, and Chief Executive Officer; and Patrick Brennan, Executive Vice President and Chief Financial Officer. They will discuss our results and take your questions.

During the call, we will reference non-GAAP measures used by insurance and investment professionals to evaluate financial and operating performance, including operating income, operating return on common equity, and adjusted book value per common share. Reconciliations to the most comparable GAAP measures are available in our financial supplements on our Investor Relations page.

We will also make forward-looking statements under the Private Securities Litigation Reform Act of 1995. These statements and projections about future performance are subject to risks and uncertainties that we disclose in our SEC filings. We undertake no obligation to update or revise any forward-looking statements.

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

John J. Marchioni

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

Thanks, Brad, and good morning. This has been an exciting few months for Selective. In May, we celebrated our 100th anniversary and our 50th year as a public company by ringing the Nasdaq closing bell. More recently, we opened our new corporate headquarters in Short Hills, New Jersey. This office broadens our access to talent and positions us near transportation hubs that connect us more easily across our expanding geographic footprint. On July 1, we opened for business in Montana and Wyoming and are pleased with early traction and agency engagement. These milestones reflect our long-term commitment to disciplined growth and operational excellence.

This marks our eighth consecutive quarter with double-digit operating ROE. We delivered a 13.7% operating ROE, led by excellent investment income, which grew 18% year-over-year. Each insurance segment produced an underwriting profit, and our 98% combined ratio improved 2.2 points from a year ago. E&S performance remained strong, and our Personal Lines combined ratio of 94.1% for the first half of the year is ahead of our 95% combined ratio target. Driving margin improvement in Standard Commercial Lines, our largest segment, remains a key area of focus. Net premiums written declined 5% for the quarter. We believe discipline is imperative in the current environment, and we remain fully committed to expanding our market share meaningfully where and when margins warrant it. We believe the composition of that decline is important as a meaningful portion reflects actions we are taking to improve portfolio economics and long-term returns.

Year-to-date, our E&S and Personal Lines segments outperformed our 95% combined ratio target. In Standard Commercial Lines, our combined ratio was 99.7%. As such, we remain focused on improving margins and further diversifying our business mix.

Contractors continues to be an important industry vertical where we have proven expertise. However, the casualty-oriented nature of this business has pressured performance in recent years as we and the industry work through elevated commercial casualty loss trends. In 2025, contractors represented 43% of our Commercial Lines premiums. Through the first half of 2026, they accounted for 33% of new business. While new business diversification improved, Standard Commercial Lines new business premium declined 22% in the second quarter, consistent with the first quarter decrease. Stronger new business pricing, informed by our view of expected loss trends, combined with a competitive market, drove lower conversion rates. We are leveraging our tools, granular insights, and differentiated operating model to drive higher renewal retention on our best-performing business and meaningfully lower retention on our underperforming business through appropriate rating actions.

While the overall rate increases have moderated, we expect these mix improvement actions will contribute to improved profitability. The execution of this strategy accelerated during the second quarter. Retention in our best performing renewal cohort was 89% for the quarter, consistent with a year ago. At the same time, retention in our worst-performing cohorts decreased from 81% to 55%, and renewal rate increased from 11.5% to 18%. This is exactly the portfolio effect we intended as we believe these actions improve the earnings power of the portfolio over time.

These actions are simultaneously supporting our broader organizational priority to further diversify our business. In the quarter, contractors' retention declined approximately 2 points year-over-year, reflecting its casualty orientation and our view of required rate levels in commercial auto liability and general liability. Of the 6 percentage point decline in Standard Commercial Lines net premiums written this quarter, lower new business contributed 3 percentage points of the decrease. Actions on the renewal portfolio, specifically in our worst performing cohorts, drove the remaining 3 percentage points. We are constraining growth where margins do not meet our targets and focus on new business and retention strategies on the business that continues to enhance the earning power of the book. While these actions take time to earn through the portfolio, we believe they positioned us for improved underlying margins and more attractive risk-adjusted returns.

E&S delivered another strong quarter with a 91.8% combined ratio and a disciplined underwriting across both property and casualty. Renewal pure price increased 3.4% with continued rate momentum in casualty, reflecting our view of general liability loss trends. Property pricing was slightly negative, consistent with competitive market conditions and strong margins. Increased competition in the marketplace, along with our disciplined approach, contributed to a 2% premium decline in the quarter. The E&S market has benefited from strong tailwinds over recent years, but historically has exhibited more cyclicality than the admitted market. We are seeing more capacity entering the E&S marketplace, including appetite expansion by admitted market carriers. With our strong margins, 50-state footprint, and expansion of our distribution channel to include our retail agents, we believe E&S continues to present a long-term opportunity to support our profitable growth and diversification objectives.

Personal Lines profitability continues to improve despite expected variability in property losses. The combined ratio was 95.5%, up from 91.6% in the second quarter of 2025, driven by higher non-catastrophe property losses. Year to date, the combined ratio of 94.1% was 80 basis points better than the first six months of 2025 and compare favorably to the 100.6% combined ratio for the full year of 2025. Results remain stronger outside of New Jersey. Net premiums written declined 8% with target business down 2%. New business decreased 36% in the quarter, driven by an increasingly competitive auto market and restrictions we have in place to manage exposure in New Jersey.

Homeowners premium was relatively flat in the quarter as we continue to gain traction in our target market. Average new business home values remained in excess of $1 million for the first half of the year, and target market business now represents approximately 70% of our homeowners premium. We are focused on growth in our target market where we believe our rates are adequate. Renewal pure price increased 8.9% with continued refinement of our segmentation strategy.

For each of our insurance segments, the actions we are taking to strengthen our portfolio reflect the same disciplined approach that has long guided Selective's success. We remain focused on improving fundamentals across risk selection, individual policy pricing, and claim outcomes, diversifying revenue and income within and across our three insurance segments and further leveraging data, analytics, and technology, including artificial intelligence, to drive operational efficiency and improved underwriting and claim outcomes.

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

Patrick S. Brennan

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

Thanks, John, and good morning, everyone. For the quarter, we reported fully diluted EPS of $2.11 and non-GAAP operating EPS of $1.95, resulting in a 14.8% ROE and a 13.7% operating ROE. Our GAAP combined ratio was 98.0%, including 5.6 points of catastrophe losses. Year to date, strong after-tax net investment income and a GAAP combined ratio of 98.1% delivered a 13% ROE and a 12.8% operating ROE, ahead of our 12% target.

As in the first quarter, we had no prior year casualty reserve development at the segment or line of business level. Severities have generally tracked in line with expectations. However, we have observed higher-than-expected frequency in the first half of the year for commercial auto liability and have adjusted our current year loss ratios accordingly. In commercial auto, the year-to-date underlying loss ratio of 69.7% was up modestly compared to full year 2025, including the current accident year frequency adjusted and previously contemplated severity pressures, partially offset by earned renewal pure price. In general liability, the year-to-date underlying loss ratio was 0.8 points higher than full year 2025, reflecting elevated severity trends we embedded in the current accident year as part of our planning process.

Turning to pricing. For the quarter, excluding workers' compensation, renewal pure price increased 7.4%. General liability pricing increased 8.7%, and commercial auto pricing increased 9.3%, up 20 basis points sequentially. Auto liability pricing approached 13%, demonstrating our ability to deliver rate increases where they are most needed. Property renewal premium increased 7.7%, including 3.3 points of exposure growth.

We are prudently managing the impact of net premiums written as we balance maintaining a competitive expense ratio through strategic investments to support future growth and operational efficiency. We remain committed to technology investments that we believe will increase the capacity and decision quality of our teams. For 2026, we expect our expense ratio will be consistent with our expectation of approximately 31.5% at the beginning of the year.

Effective July 1, we renewed our casualty excess of loss and property and per risk reinsurance treaties. These treaties cover our Standard Commercial Lines, Standard Personal Lines, and E&S businesses. The casualty excess of loss treaty covers our entire casualty portfolio and provides $87 million of protection in excess of a $3 million retention. As part of the renewal, we reduced our co-participation in the first layer from 20% to 8%, and all remaining layers were fully placed with no co-participation. We also renewed our property per risk treaty, which now provides $115 million of coverage in excess of a $5 million retention on a per risk basis. The $20 million increase in treaty limit from the expiring program reflects continued business growth and higher insured values across the portfolio.

Turning to capital management, our capital management approach is unchanged. We prioritize supporting the profitable growth of our business over the long term and aim to return 20% to 25% of earnings to shareholders through dividends. We will also opportunistically repurchase shares. During the quarter, we returned nearly 50% of our after-tax net income to shareholders through regular dividend and $32 million of share repurchases at attractive valuations. Our strong capital position supports this commitment to delivering long-term value. At quarter end, $108 million remained on our authorization.

After-tax net investment income was $119 million in the quarter, up 18% year over year. This generates 13.9 points of ROE. The increase in net investment income was due to higher book yields, driven by higher interest rates across the yield curve. The deployment of strong operating cash flows and active portfolio management also contributed to this positive outcome. The portfolio remains conservatively positioned with an average credit quality of A+ and a duration of 4.3 years.

Turning to guidance, we continue to expect a GAAP combined ratio between 96.5% and 97.5%, assuming 6 points of catastrophe losses. Given year-to-date underlying results, we expect to be near the top of the range. We now expect after-tax net investment income of $480 million, up from our original expectation of $465 million. Our guidance assumes an effective tax rate of 21.5% and a fully weighted average share count of 60.2 million, reflecting year-to-date share repurchases.

With that, operator, please start our question-and-answer session.

QUESTION AND ANSWER SECTION

Operator: Thank you [Operator Instructions] Please stand by while we compile the Q&A roster. Our first question comes from the line of Michael Phillips with Oppenheimer. Your line is now open.

Michael Phillips
Analyst, Oppenheimer & Co., Inc.

Q

Thank you, and good morning, everybody. John, I wanted to take my first question on your comments in the opening on the new business and commercial growth or decline in the quarter. I guess two things. First, it is – yeah. I think your renewal pricing, while it was sequentially down, I don't think it was down as much as we've seen from others. And then, secondly, this obviously is the first quarter. You've taken deliberate actions. And maybe the important point is that second point. It's not the first quarter you've done that. So, the drop you mentioned in the new business contributed about half of that drop in Commercial Lines. Were you more aggressive with those actions this quarter than you have been in prior quarters? Or was there something else that led to the decline if we think about kind of what that means for future quarters?

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

A

Yeah. I guess to your point, Mike, the steps we've taken with regard to pricing overall, our new business pricing is not new. That was certainly there in the latter part of last year and the beginning part of this year, and the decline in new business in Q1 was pretty consistent with what we saw in Q2. I think, when we talk about what happens going forward, I think there's a market dynamic here that will certainly drive that. And we saw – we've seen pressure on hit ratios in Commercial Lines where our traditional hit ratios would have been in the mid-30s, and I would say they're probably down into the low 30s at this point. And I think that will continue to the extent that market pricing doesn't start to become more reflective of where run rate profitability is in GL, in particular, and where loss trends are. But at the same time, we continue to view this market as one where individual risk selection matters a lot. So, we've got a view on overall pricing on a line-by-line basis, but there are still high-quality accounts to be found in this marketplace. And our ability to identify those accounts, pursue those accounts, and ultimately, win those accounts will give us potential to continue to generate solid new business on a go-forward basis and improve mix at the same time.

So, we're not just sitting here waiting for the market to turn. We're dialing up our efforts to increase submission activity in the places on a segment and geographic basis where we can effectively compete at our target pricing levels. Those areas do exist, and our effort is on finding those.

Michael Phillips
Analyst, Oppenheimer & Co., Inc.

Q

Okay. Thank you, John. Patrick made the comments on commercial auto and frequency. I guess – do you – any details you can provide on kind of where that's coming from? Do you think this quarter was more of an anomaly? Is there a trend here that we should be focused on to worry about there?

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

A

I would say, you know, we saw in the first half of the year some elevated frequency. There's a hypothesis to suggest that you see this when you have a heavier winter, like we saw in the northern part of the US this year. But I think from our perspective, rather than put full weight on that hypothesis, we thought it was prudent to react to what we saw. I will also say we saw this a couple of years back in workers' comp that ultimately reversed itself and settled out. We're not predicting that happening. I think it's – we just view it as a prudent step to respond to what you see in the data early in the year. If it reverses, that's great. If it doesn't, we responded to it already.

Michael Phillips
Analyst, Oppenheimer & Co., Inc.

Q

Okay. Thanks. And maybe just lastly, high-level question maybe for the industry. There's been some obviously some tort reform actions at some states. I think less so in some of your higher-concentration geographic footprints. But have you seen any – in any of your states, have you seen any efforts that would give kind of credible evidence that suggest that things might be turning for the better there? Your casualty loss picks are still where they were last three quarters that would suggest not. But any evidence that you can rely on there?

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

A

I would say, there has been some more success, right? Georgia was the first state to make significant reforms. I think that certainly improved that environment. We've seen more targeted reforms in places like South Carolina around liquor liability. More recently, you saw in North Carolina significant restrictions, if not outright bans on third-party litigation financing. I think those are all positives. I think some of the more recent actions, while it doesn't affect us on New York with regard to trying to curtail fraud in the claims system, I think that's a positive on a directional basis. But I would consider to – continue to view these as sort of idiosyncratic items on a state-by-state basis and not broad based enough to impact the direction of severity trends. I think our expectation is the environment will continue. It will ultimately find its own natural level, but we're not anticipating or predicting that's going to happen this year or next and are pricing accordingly. But this is a big area of focus for us as an industry. It's our trade associations' top item in terms of public policy. So, we're doing our best to change that outcome, but I don't expect any significant change in the near term.

Michael Phillips
Analyst, Oppenheimer & Co., Inc.

Q

Okay. Wonderful. Thank you, guys. Appreciate your time.

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

A

Thank you.

Operator: Our next question comes from the line of Paul Newsome with Piper Sandler. Your line is now open.

Paul Newsome
Analyst, Piper Sandler & Co.

Q

Good morning. Thanks for the call. Maybe a little bit to tease out on Patrick's comment about the combined ratio may be a little bit towards the higher end of the range. In hindsight, 20/20, is that kind of a thought that it's about the claim frequency issues that you're talking about? Or is it a competitive situation that it's a little bit different than what you've thought about at the beginning of the year? Just maybe a little bit of what came in as unexpected over the last six months that trend-wise you think might be interesting in adjacent.

Patrick S. Brennan
Executive Vice President and Chief Financial Officer, Selective Insurance Group, Inc.

A

Yeah. Paul, thanks for the question. I guess I'd frame this in a couple of different ways. One of which is we did indicate a range. We are affirming the range that we started with at the beginning of the year, signaling that the more recent changes that we've had in the current accident year will naturally flow through there. And so, I think part of the messaging there is we see that, and we're helping folks understand how we expect the rest of the year to go.

When you look at the rest of the year, I think I'd highlight the fact that we have a pretty robust planning process. And in that planning process, when we're looking at creating our budgets and forecasts, we understand that there are seasonal aspects and different things that happen throughout the year. So, as an example, if you look at the first quarter of this year, our expense ratio was a little bit higher. That's because some of the corporate expenses tend to flow through in the first quarter, and we see that on a regular basis. Those types of things are built into our plan.

And so, if you look at the balance of the year, I think we would be sitting here, saying we think we're going to land at the top end of the range. And what drives that is that non-cat property tends to be a little bit heavier in the first half of the year, and we've contemplated all of the other pricing and underwriting actions that we have contemplated for the balance.

Paul Newsome
Analyst, Piper Sandler & Co.

Q

So, the non-cat weather is sort of- in the hindsight the surprise variation, the quick interpretation?

Patrick S. Brennan
Executive Vice President and Chief Financial Officer, Selective Insurance Group, Inc.

A

No. Actually, quite the opposite. We tend to expect that non-cat weather will be a little bit higher in the first half of the year. So, that's why, you'd see maybe different loss ratios implied in the first half versus the second half in our planning process. What I'm saying is the guide to the top end is reflecting the fact that, to this point, we've taken additional losses into the current year and therefore will reflect the full year – will be reflected in the full year results. We did not anticipate that as we came into the year.

Paul Newsome
Analyst, Piper Sandler & Co.

Q

Okay. Sorry about my confusion. But do you – I mean, kind of back to the same question. From a competitive perspective, do you think it's different than what you expected this year? In general, maybe just some thoughts broadly. Because, obviously, you folks are doing a lot of changing and pushing price where others are not, so I think you guys have a little bit different perspective than others might have.

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

A

Yes. Thanks, Paul. This is John. So, let me tackle that. And again, I hate to always – to try to project on how other companies think about the world. But, when you look at where the market is and look at where results are for us and the rest of the industry on a commercial casualty basis, whether it's GL or commercial auto, run rate performance is not good, right? The industry is generating an underwriting loss in general liability and an underwriting loss in commercial auto, specifically on the auto liability side. There's generally not a sense and I haven't heard any public commentary with conviction that loss trends on commercial casualty are temporary. So, there's no real explanation for why pricing hasn't remained firm, specifically for GL. It has for commercial auto liability, but it hasn't for GL.

And I think we do expect that will temper. But when you break down results, and look at what happened in 2024 and 2025, the industry on GL added a little over $10 billion of adverse to GL in calendar year 2024. And in calendar year 2025, the industry added another $8-plus billion to GL prior year. And that should reflect in how we think about current year run rates from a loss ratio perspective, and that should be reflecting in the pricing environment. And it shouldn't – it doesn't indicate a declining pricing environment, but that's what we're seeing in GL, which is why we maintain conviction in our view that that has to reverse itself, and we're going to take that stance.

And I think on the auto side, while pricing has remained firm, specifically on the auto liability side, results haven't really improved across the industry. And I think that that would suggest that pricing there will remain firm. To me, the issue is willingness across the industry to subsidize those results, those underwriting losses with really strong property, really strong specialty lines, workers' comp, prior year favorable development, and strong personal lines results across the industry. And our expectation is as the margins in those more profitable lines and segments that I just referenced start to temper, and we know they will because pricing in those areas has tightened meaningfully, I think that will put a little bit more pressure on these longer-tail casualty lines, which are currently running at an underwriting loss for the industry and for many companies in the industry. And that will sort of force the issue with regard to pricing. And our efforts, not just this year, but over the last couple of years, are to stay out in front of that curve.

Paul Newsome Q
Analyst, Piper Sandler & Co.

No. That really makes a lot of sense. Thanks a lot. Thank you.

Operator: Thank you. Our next question comes from the line of Michael Zaremski with BMO. Your line is now open.

Michael Zaremski Q
Analyst, BMO Capital Markets Corp.

Hey, great. Thanks. Good morning. I guess just curious, given the bump in frequency, which, hopefully, is temporary, why haven't you decided to take any reserve additions maybe in commercial auto? And I don't know if you wanted to also just maybe talk about GL, too. It was good to see no reserve additions but any – it sounds like no changes in loss trend assumptions this quarter.

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

Yeah. Mike, so thank you for the question. So, to answer your – the latter part of your question first, yeah, we have not seen or pointed to any change in our view of loss trend, but I go back to the comments Patrick made earlier and I reinforce with regard to the first question. Our reaction in the current year was entirely driven by our view of frequency in the current year. And as a result of that, that's why, there's no need or no sort of response with regard to prior years. Prior years are evaluated separately by line across all prior accident years. And the current year, you see frequency as your early indicator, and we've always said that. And I'll kind of reinforce to your earlier point, there's a hypothesis to suggest that this is weather related in the first part of the year, but we think it's prudent for us based on the – where this line is to react. And that's what we've done here, and it's incorporated into our results. It's incorporated into our full year guidance, and we think that's a sensible place to be.

Michael Zaremski
Analyst, BMO Capital Markets Corp.

Q

Yeah.

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

A

Yeah. And Mike, sorry. The other part of your question, GL has been stable for us since 2024. And as you recall, we took a significant charge in GL in 2024. And when you look over the last eight quarters, since then, our GL reserve position, our reserves have been very stable. And there's a couple of small movements that we highlighted over the course of 2025, but pointed to umbrella because we include umbrella in our GL line. And the umbrella experience was driven by auto, as we talked about over the last couple of years. So, we feel good about the actions we took in GL a couple of years ago, and I'll kind of reinforce the point. You're continuing to see pressure across the industry, and I think we feel good about getting out in front of that issue.

Michael Zaremski
Analyst, BMO Capital Markets Corp.

Q

Got it. No, not sure you want or are able to quantify IBNR ratios, but is it – would you be able to share whether the IBNR ratios you're booking in kind of GL and commercial auto for the 2026 vintage are meaningfully higher or the same or lower than kind of how you're booking the prior vintages as we kind of look at the higher loss ratios? Or don't want to tease out whether that's coming from paids, being a bit higher or is it IBNR?

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

A

Yeah. I guess what I would suggest is, I would back and look at what you can see for – in the Schedule P for 2025 and prior to do that analysis. But I'll also caution you, and I know you know this, but IBNR ratios can't be looked at in isolation. And when you think about these longer-tail casualty lines, you have to evaluate IBNR ratios in the context of what's happening from a disposal rate perspective and a reporting pattern perspective. And I think most in the industry have commented on this, and you could see it across the industry, disposal rates have come down meaningfully over the last several years, which means cycle times that lengthen, which would suggest you need higher IBNR ratios when you look at across different companies' results because your disposal rates are much lower and that's driven by higher litigation rates that are driving that.

So, I just – IBNR ratios are one data point to look at, and I'm not sort of suggesting that our IBNR ratios don't look strong because I think you'll see that they do when you go through that analysis of – in 2025. All I'm suggesting is you have to think about that in the broader picture. For us, our disposal rates on auto have actually held up quite well and are – have been quite stable despite a higher litigation rate. But I think you'll see it for us and across the industry that that's not necessarily the case in GL where our cycle times have lengthened and disposal rates have come down, which creates additional level of risk when you're looking at those IBNR ratios.

Michael Zaremski
Analyst, BMO Capital Markets Corp.

Q

Good. That's a very good point. Maybe just lastly, you brought up, it's exciting, the continued transition to the Short Hills or you announced it a while back, but the transition to the Short Hills headquarters. I know you've long had a great HQ in the Branchville area. I'm just curious in the short run, obviously, it sounds like a great long-term change. Maybe you can comment on that. But in the short run, has it been creating any kind of turnover or just issues that might be impacting anything like top line, et cetera, as kind of maybe some employees aren't making – have decided over the past year or two not to make that move? Thanks.

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

A

Yeah. Thank you for the question. A number of pieces to that. First part, the short answer to your question around whether that's impacting our growth in any way is no. I think it's important to keep in mind we're moving our corporate functions from our headquarters to the new location. Our underwriting organization is spread out across six regional offices, one of which is in Branchville, co-located with our corporate headquarters, and that is not moving. That's going to stay here. So, in terms of disruption to the underwriting organization, I would call it relatively minimal.

But with regard to disruption overall, of course, a move like this is disruptive, and the population impacted by this is a little less than 20% of our population and stretched out over a period of years in order to provide an appropriate level of flexibility. So, we're trying to manage that disruption as best we can. And as we mentioned – and as I mentioned in the prepared comments, we think it positions the organization for the future in a much better way. But also, we were founded here in Branchville, New Jersey, and we're going to maintain a strong presence here at Branchville, New Jersey. We're going to have a large underwriting operation here. Our flood operation will be here. A number of other functions will remain. So, I just want to – I want to reinforce that point because the roots of this organization are very strong indeed, and we're going to continue to honor those.

Michael Zaremski
Analyst, BMO Capital Markets Corp.

Q

Thanks for the candid answer. Thank you.

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

A

Thank you.

Operator: Our next question comes from the line of Meyer Shields with Keefe, Bruyette & Woods. Your line is now open.

Meyer Shields
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thanks so much. Two quick questions, if I can. One, is the premium decline in commercial property, is that a function of rate? Or is that spillover from the underwriting actions that you're taking on the other liability lines?

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

A

I would say it's related to what we're doing overall, because, remember, we tend to write on a package basis. I'm not suggesting there's no monoline property in the portfolio, but there's very little monoline property in the portfolio. The decline is a little bit less than you see in auto, but I think that's more of a function of rate being lower in property than it is in auto, as an example. But it's not like we have underwriting actions focused on – specifically on property. And in fact, our property results have been quite strong. So, it's really the portfolio effect of what we're trying to do from a profitability improvement perspective.

Meyer Shields
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. That's very helpful. And then, second, in – the underlying loss ratio in BOP went up. Then I wonder, is that weather? Or is that also more conservatism on the liability side of things?

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

A

I would say it's property related. So, our non-cat property in the BOP line in the quarter was a bit over expected. There's variability there, but it's – there's nothing to point to from a casualty perspective. That's just – that's non-cat property variability. And on a year-to-date basis, it's a little above expected. But in the quarter, it was a little bit more higher above expected. So that's that.

Meyer Shields
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Fair enough. I know the personal lines book is intentionally sort of focused on the mass affluent. When we look at broader industry data, we're still seeing, I think, surprisingly low levels of severity trend outside of bodily injury. And I'm wondering, is that showing up in Selective's results also?

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

A

I'm sorry, Meyer. So, you're talking about lower levels of BI or outside of the auto BI?

Meyer Shields
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Yeah. All of the sub lines outside of BI, we're seeing like – looking at the ISO data, very low severities that I frankly don't understand. And I was wondering if you're seeing that, and if so, what you think is happening.

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

A

Yeah. Well, I would say that – and I think it is pretty reflective of what we see in our own portfolio. But outside of auto BI in the personal lines space, those severity trends are going to be more driven by economic inflation when you think about – even PD, property damage liability and then auto phys dam and homeowners, it's more economic inflation driven. And I think that the tariff impacts being much more muted than anticipated and economic inflation being a lot more well behaved outside of certain aspects of the CPI is probably what's keeping severity trend in check outside of BI.

Meyer Shields
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Perfect. Thank you so much.

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

A

Thank you.

Operator: Thank you. [Operator Instructions] Our next question comes from the line of Rowland Mayor with RBC Capital Markets. Your line is now open.

Rowland Mayor
Analyst, RBC Capital Markets LLC

Q

Hi. Good morning. To start, when did the contractors' diversification efforts kick off? And can you maybe walk through what portion of your book has gone through the renewal process there?

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

A

I would say diversification efforts is not a new concept for us. And clearly, over the last year or so, we've been particularly focused on making sure we continue to shift the mix in that direction. So, it's not like there's some point in time that you're looking for the renewal portfolio to have cycled through. This is a longer-term strategy.

I want to just reinforce the point. Construction is a good business for us, and it has been a good business for us for a long time. This is more about line of business diversification. And auto and general liability are big lines for us and will continue to be big lines for us, but we want to continue to diversify into other lines and other segments of business. And that's the primary driver here. So, it's not like we're taking some concentrated action on the renewal portfolio that you should be looking for to work its way through the book. So, I just want to clarify that point.

Rowland Mayor
Analyst, RBC Capital Markets LLC

Q

No. That's helpful. Thank you. And then, I guess shifting a little bit. The workers' comp loss ratio improved quite significantly year-over-year and versus the first quarter. What was the driver of that?

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

A

Yeah. I would say, primarily, we see – we have a lower frequency, meaning – we talked about this in 2024, and I mentioned this in the commentary earlier. We started to see a little bit of frequency elevation in the first couple of quarters that ultimately leveled out, and that influenced how we were thinking about 2025 when we were seeing that flattening frequency trend. So, then we saw frequencies in 2025 come through quite well relative to expected, and then we did reflect that in our 2026 expected loss ratios. And then, we saw that that better frequency continue through the first half of this year.

So, I think that's probably the primary point. There's a secondary item there that we're not getting into too much detail. We've made some enhancements to our audit process that led to some additional premium capture without associated loss exposure coming with it, but that's more of an operational item than anything else.

Rowland Mayor
Analyst, RBC Capital Markets LLC

Q

Okay. Thank you. And then, if I could sneak in just one more. Given the negative top line, can you maybe walk through capital management and whether you would consider taking the payout ratio up? I think it's about 50% right now.

Patrick S. Brennan
Executive Vice President and Chief Financial Officer, Selective Insurance Group, Inc.

A

Yeah. Thanks for the question. I think given slower growth, that certainly does change the demand for capital, but I would say we take a long view. We are continuing to look for ways to invest in profitable growth. John talked about where we're looking for opportunities to continue to grow the business. We have our payout ratio from a dividend perspective in the 20% to 25% range over the long term. And as we've said previously, we will opportunistically buy in shares where we think it's attractive to do so and accretive to do so.

Those principles are always in balance. We're always trying to evaluate what is the best use of our capital and how we drive consistent returns over time. And so, I would also remind you that the way that we think about this as well is the return on equity is an important financial consideration. So, as we think about the amount of capital we have and how we deploy it, we're always looking to ensure that we do that in a way that drives consistent returns from an ROE perspective as well.

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

A

And, Rowland, if I could just add a point or amplify a point that Patrick is spot-on in how he responded but just amplify the point around how we think about organizational growth and the fact that you really want to think about growth over a longer-term time period. And that's how we think it. That's how we invest in the business. And I think the Selective growth story is no different than it was a quarter or two ago. But there will be times in our business based on market dynamics and other factors where that growth will temper, and there are times where it will accelerate. And we're positioned to take advantage of those opportunities as they emerge, but I think it's important to always think about the growth story for this company in a longer-term time horizon.

We saw this movie before in 2010 or 2011 where growth flattened because we were focused on making sure we had underwriting and pricing discipline where it needed to be, and those actions set us up for a 10- or 12-year period where we grew the organization on a compounded annual basis of about 9%. And we're positioning to do that same thing on a go-forward basis, but we're going to make sure that we're doing it in a manner where profit margins are appropriate over that timeframe.

Rowland Mayor
Analyst, RBC Capital Markets LLC

Q

That's great. Thank you. Have a great summer.

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

A

Thank you.

Operator: Thank you. And I'm currently showing no further questions at this time. I would like to now hand the call back over to John Marchioni for closing remarks.

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

Very well. Thank you, all, for joining us. We appreciate your time, appreciate the interest and the questions. And as always, if you have any additional questions, please feel free to follow up. Thank you.

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