

SELECTIVE INSURANCE GROUP INC
Form 10-Q
October 26, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended: September 30, 2018
or

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

For the transition period from _____ to _____

Commission File Number: 001-33067
SELECTIVE INSURANCE GROUP, INC.
(Exact Name of Registrant as Specified in Its Charter)

New Jersey 22-2168890
(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

40 Wantage Avenue 07890
Branchville, New Jersey (Address of Principal Executive Offices) (Zip Code)
(973) 948-3000
(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

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

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Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of October 15, 2018, there were 58,888,985 shares of common stock, par value \$2.00 per share, outstanding.

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ITEM 1. FINANCIAL STATEMENTS.SELECTIVE INSURANCE GROUP, INC.
CONSOLIDATED BALANCE SHEETS

	Unaudited	
	September 30, 2018	December 31, 2017
(\$ in thousands, except share amounts)		
ASSETS		
Investments:		
Fixed income securities, held-to-maturity – at carrying value (fair value: \$46,240 – 2018; \$44,100 – 2017)	\$ 44,582	42,129
Fixed income securities, available-for-sale – at fair value (amortized cost: \$5,216,964 – 2018; \$5,076,716 – 2017)	5,190,156	5,162,522
Equity securities – at fair value (cost: \$134,530 – 2018; \$143,811 – 2017)	157,867	182,705
Short-term investments (at cost which approximates fair value)	304,572	165,555
Other investments	163,930	132,268
Total investments (Note 4 and 6)	5,861,107	5,685,179
Cash	446	534
Restricted cash	12,386	44,176
Interest and dividends due or accrued	41,016	40,897
Premiums receivable, net of allowance for uncollectible accounts of: \$10,100 – 2018; \$10,000 – 2017	826,923	747,029
Reinsurance recoverable, net of allowance for uncollectible accounts of: \$4,500 – 2018; \$4,600 – 2017	603,827	594,832
Prepaid reinsurance premiums	167,108	153,493
Current federal income tax	—	3,243
Deferred federal income tax	52,347	31,990
Property and equipment – at cost, net of accumulated depreciation and amortization of: \$227,639 – 2018; \$213,227 – 2017	64,225	63,959
Deferred policy acquisition costs	258,033	235,055
Goodwill	7,849	7,849
Other assets	91,485	78,195
Total assets	\$ 7,986,752	7,686,431
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Reserve for loss and loss expense (Note 8)	\$ 3,925,155	3,771,240
Unearned premiums	1,483,794	1,349,644
Long-term debt	439,436	439,116
Current federal income tax	12,133	—
Accrued salaries and benefits	95,352	131,850
Other liabilities	292,362	281,624
Total liabilities	\$ 6,248,232	5,973,474
Stockholders' Equity:		
Preferred stock of \$0 par value per share:	\$ —	—
Authorized shares 5,000,000; no shares issued or outstanding		
Common stock of \$2 par value per share:		
Authorized shares 360,000,000		

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Issued: 102,786,738 – 2018; 102,284,564 – 2017	205,573	204,569
Additional paid-in capital	385,451	367,717
Retained earnings	1,824,607	1,698,613
Accumulated other comprehensive (loss) income (Note 11)	(92,576	) 20,170
Treasury stock – at cost (shares: 43,897,753 – 2018; 43,789,442 – 2017)	(584,535	) (578,112)
Total stockholders' equity	\$ 1,738,520	1,712,957
Commitments and contingencies		
Total liabilities and stockholders' equity	\$ 7,986,752	7,686,431

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

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SELECTIVE INSURANCE GROUP, INC. UNAUDITED CONSOLIDATED STATEMENTS OF INCOME (\$ in thousands, except per share amounts)	Quarter ended September 30,		Nine Months ended September 30,	
	2018	2017	2018	2017
Revenues:				
Net premiums earned	\$614,277	572,055	1,810,941	1,700,939
Net investment income earned	52,443	40,446	141,227	119,295
Net realized and unrealized (losses) gains:				
Net realized investment (losses) gains on disposals	(751	) 6,871	4,034	12,252
Other-than-temporary impairments	(1,426	) (43	) (5,459	) (4,729
Other-than-temporary impairments on fixed income securities recognized in other comprehensive income	—	(30	) —	(36
Unrealized losses on equity securities	(2,610	) —	(15,563) —
Total net realized and unrealized (losses) gains	(4,787	) 6,798	(16,988	) 7,487
Other income	2,538	1,994	7,896	8,526
Total revenues	664,471	621,293	1,943,076	1,836,247
Expenses:				
Loss and loss expense incurred	379,199	344,587	1,130,468	1,003,618
Amortization of deferred policy acquisition costs	124,511	118,143	368,265	350,071
Other insurance expenses	80,108	78,874	244,342	243,799
Interest expense	6,073	6,085	18,350	18,272
Corporate expenses	7,450	6,289	22,065	26,669
Total expenses	597,341	553,978	1,783,490	1,642,429
Income before federal income tax	67,130	67,315	159,586	193,818
Federal income tax expense:				
Current	10,314	16,859	23,529	48,917
Deferred	1,381	3,738	2,878	6,317
Total federal income tax expense	11,695	20,597	26,407	55,234
Net income	\$55,435	46,718	133,179	138,584
Earnings per share:				
Basic net income	\$0.94	0.80	2.26	2.37
Diluted net income	\$0.93	0.79	2.23	2.34
Dividends to stockholders	\$0.18	0.16	0.54	0.48

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

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SELECTIVE INSURANCE GROUP, INC. UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (\$ in thousands)	Quarter ended September 30,		Nine Months ended September 30,	
	2018	2017	2018	2017
Net income	\$55,435	46,718	133,179	138,584
Other comprehensive (loss) income, net of tax:				
Unrealized (losses) gains on investment securities:				
Unrealized holding (losses) gains arising during period	(17,036)	10,874	(103,389)	50,961
Non-credit portion of other-than-temporary impairments recognized in other comprehensive income	—	19	—	23
Amounts reclassified into net income:				
Held-to-maturity securities	(6)	(35)	(22)	(95)
Non-credit other-than-temporary impairments	—	25	—	25
Realized losses (gains) on disposals of available-for-sale securities	8,563	(4,394)	14,424	(4,638)
Total unrealized (losses) gains on investment securities	(8,479)	6,489	(88,987)	46,276
Defined benefit pension and post-retirement plans:				
Amounts reclassified into net income:				
Net actuarial loss	420	329	1,260	989
Total defined benefit pension and post-retirement plans	420	329	1,260	989
Other comprehensive (loss) income	(8,059)	6,818	(87,727)	47,265
Comprehensive income	\$47,376	53,536	45,452	185,849

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

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SELECTIVE INSURANCE GROUP, INC. UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (\$ in thousands, except per share amounts)	Nine Months ended September 30,	
	2018	2017
Common stock:		
Beginning of year	\$204,569	203,241
Dividend reinvestment plan (shares: 17,683 – 2018; 22,278 – 2017)	35	45
Stock purchase and compensation plans (shares: 484,491 – 2018; 537,588 – 2017)	969	1,075
End of period	205,573	204,361
Additional paid-in capital:		
Beginning of year	367,717	347,295
Dividend reinvestment plan	1,013	1,025
Stock purchase and compensation plans	16,721	14,417
End of period	385,451	362,737
Retained earnings:		
Beginning of year, as previously reported	1,698,613	1,568,881
Cumulative effect adjustment due to adoption of equity security guidance, net of tax (Note 2)	30,726	—
Cumulative effect adjustment due to adoption of stranded deferred tax guidance (Note 2)	(5,707) —
Balance at beginning of year, as adjusted	1,723,632	1,568,881
Net income	133,179	138,584
Dividends to stockholders (\$0.54 per share – 2018; \$0.48 per share – 2017)	(32,204	) (28,424)
End of period	1,824,607	1,679,041
Accumulated other comprehensive (loss) income:		
Beginning of year, as previously reported	20,170	(15,950)
Cumulative effect adjustment due to adoption of equity security guidance, net of tax (Note 2)	(30,726) —
Cumulative effect adjustment due to adoption of stranded deferred tax guidance (Note 2)	5,707	—
Balance at beginning of year, as adjusted	(4,849	) (15,950)
Other comprehensive (loss) income	(87,727	) 47,265
End of period	(92,576	) 31,315
Treasury stock:		
Beginning of year	(578,112	) (572,097)
Acquisition of treasury stock (shares: 108,311 – 2018; 136,012 – 2017)	(6,423	) (6,005)
End of period	(584,535	) (578,102)
Total stockholders' equity	\$1,738,520	1,699,352

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

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

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SELECTIVE INSURANCE GROUP, INC. UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS (\$ in thousands)	Nine Months ended September 30,	
	2018	2017
Operating Activities		
Net income	\$ 133,179	138,584
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	34,961	38,163
Stock-based compensation expense	12,150	10,139
Undistributed gains of equity method investments	(4,243)	(4,247)
Distributions in excess of current year income of equity method investments	3,210	552
Loss on disposal of fixed assets	62	998
Net realized and unrealized losses (gains)	16,988	(7,487)
Changes in assets and liabilities:		
Increase in reserve for loss and loss expense, net of reinsurance recoverable	144,920	104,429
Increase in unearned premiums, net of prepaid reinsurance	120,535	115,855
Decrease in net federal income taxes	18,339	