SELECTIVE INSURANCE GROUP INC
Form 10-K
February 22, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K
(Mark One)

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

For the fiscal year ended: December 31, 2016
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, Branchville, New Jersey	07890
(Address of Principal Executive Offices)	(Zip Code)
Registrant’s telephone number, including area code:	(973) 948-3000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $2 per share	NASDAQ Global Select Market
5.875% Senior Notes due February 9, 2043	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
ý Yes ¨ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
¨ Yes ý No

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.

ý Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, 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).
ý Yes ¨ No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
ý

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The aggregate market value of the voting company common stock held by non-affiliates of the registrant, based on the closing price on the NASDAQ Global Select Market, was $2,154,552,276 on June 30, 2016. As of February 14, 2017, the registrant had outstanding 58,204,352 shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the registrant's definitive Proxy Statement for the 2017 Annual Meeting of Stockholders to be held on April 26, 2017 are incorporated by reference into Part III of this report.

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PART I

Item 1. Business.

Overview

Selective Insurance Group, Inc. (referred to as the “Parent”) is a New Jersey holding company that was incorporated in 1977. Our main office is located in Branchville, New Jersey and the Parent’s common stock is publicly traded on the NASDAQ Global Select Market under the symbol “SIGI.” The Parent has ten insurance subsidiaries, nine of which are licensed by various state departments of insurance to write specific lines of property and casualty insurance business in the standard market. The remaining subsidiary is authorized by various state insurance departments to write property and casualty insurance in the excess and surplus ("E&S") lines market. Our ten insurance subsidiaries are collectively referred to as the “Insurance Subsidiaries.” The Parent and its subsidiaries are collectively referred to as "we," “us,” or “our” in this document.

In 2016 we celebrated our 90th year in business. Over the years, we have transformed ourselves into a super-regional property and casualty insurance company with the customer service capabilities, product offering, and technical know-how of a national carrier.

In 2016, we were ranked as the 41st largest property and casualty group in the United States based on 2015 net premiums written (“NPW”) in A.M. Best Company’s (“A.M. Best”) annual list of “Top 200 U.S. Property/Casualty Writers.”

The property and casualty insurance market is highly competitive, with fragmented market share and three main distribution methods: (i) sales through independent insurance agents; (ii) direct sales to personal and commercial customers; and (iii) a combination of independent agent and direct sales. In this highly competitive and regulated industry, we think we have three principal strategic advantages. The first is the true franchise value we have with our independent distribution partners, who collectively have significant market share in the states in which we operate and from whom we expect to gain increasing percentages of the business they write. The second is our unique field model, in which our underwriting, claims, and safety management personnel are located in the same communities as our distribution partners and customers supported by sophisticated analytics, technology, and regional and home office support. The third is our focus on customer service and providing an exceptional and personalized omni-channel 24/7 customer experience, which is less common in the marketplace for commercial customers and more so for personal customers.

Based on these three principal strategic advantages, we have a financial goal to achieve an operating return on equity that is at least three percentage points higher than our weighted-average cost of capital over time. For further details regarding our 2016 performance as it relates to return on equity, refer to "Financial Highlights of Results for Years Ended December 31, 2016, 2015, and 2014" in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations." of this Form 10-K.

Furthermore, Financial Strength Ratings play a significant role in insurance purchasing recommendations by our distribution partners and in decision-making by our customers. Distribution partners generally recommend higher rated carriers to limit their liability for error and omission claims, and customers often have minimum insurer rating requirements in loan and other banking covenants securing real and personal property. Our Insurance Subsidiaries’ ratings by major rating agency are as follows:

Rating Agency	Financial Strength Rating	Outlook
A.M. Best	A	Stable

Standard & Poor’s Global Ratings (“S&P”)	A	Stable
Moody’s Investors Services (“Moody’s”)	A2	Stable
Fitch Ratings (“Fitch”)	A+	Stable

For further discussion on our ratings, please see the “Ratings” section of Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” of this Form 10-K.

We have provided a glossary of terms as Exhibit 99.1 to this Form 10-K, which defines certain industry-specific and other terms that are used in this Form 10-K.

Segments

We classify our business into four reportable segments, which are as follows:

- Standard Commercial Lines, which is comprised of insurance products and services provided in the standard marketplace to commercial enterprises, which are typically businesses, non-profit organizations, and local government agencies. This business represents 78% of our total insurance segments' NPW and is sold in 22 Eastern and Midwestern states and the District of Columbia.

- Standard Personal Lines, which is comprised of insurance products and services provided primarily to individuals acquiring coverage in the standard marketplace. This business represents 13% of our total insurance segments' NPW and is primarily sold in 13 Eastern and Midwestern states and the District of Columbia. Standard Personal Lines includes flood insurance coverage. We are the sixth largest writer of this coverage through the National Flood Insurance Program ("NFIP") and write flood business in all 50 states and the District of Columbia.

- E&S Lines, which is comprised of insurance products and services provided to customers who have not obtained coverage in the standard marketplace. We currently only write commercial lines E&S coverages and this business represents 9% of our total insurance segments' NPW and is sold in all 50 states and the District of Columbia.

- Investments, which invests the premiums collected by our insurance segments, as well as amounts generated through our capital management strategies, which includes the issuance of debt and equity securities.

We derive substantially all of our income in three ways:

- Underwriting income/loss from our insurance segments. Underwriting income/loss is comprised of revenues, which are the premiums earned on our insurance products and services, less expenses. Gross premiums are direct premium written ("DPW") plus premiums assumed from other insurers. Gross premiums less premium ceded to reinsurers, is NPW. NPW is recognized as revenue ratably over a policy's term as net premiums earned ("NPE"). Expenses related to our insurance segments fall into three main categories: (i) losses associated with claims and various loss expenses incurred for adjusting claims (referred to as "losses and loss expenses"); (ii) expenses related to insurance policy issuance, such as commissions to our distribution partners, premium taxes, and other expenses incurred in issuing and maintaining policies, including employee compensation and benefits (referred to as "underwriting expenses"); and (iii) policyholder dividends.

- Net investment income from the investment segment. We generate income from investing insurance premiums and amounts generated through our capital management strategies. Net investment income consists primarily of: (i) interest earned on fixed income investments and preferred stocks; (ii) dividends earned on equity securities; and (iii) other income primarily generated from our alternative investment portfolio.

- Net realized gains and losses on investment securities from the investments segment. Realized gains and losses from the investment portfolios of the Insurance Subsidiaries and the Parent are typically the result of sales, calls, and redemptions. They also include write downs from other-than-temporary impairments ("OTTI").

Our income is partially offset by: (i) expenses at the Parent that include general corporate expenses, as well as interest on our debt obligations; and (ii) federal income taxes.

We use the combined ratio as the key measure in assessing the performance of our insurance segments. Under U.S. generally accepted accounting principles ("GAAP"), the combined ratio is calculated by adding: (i) the loss and loss expense ratio, which is the ratio of incurred losses and loss expenses to NPE; (ii) the expense ratio, which is the ratio of underwriting expenses to NPE; and (iii) the dividend ratio, which is the ratio of policyholder dividends to NPE. Statutory accounting principles ("SAP") provides a calculation of the combined ratio that differs from GAAP in that the statutory expense ratio is the ratio of underwriting expenses to NPW, not NPE. A combined ratio under 100% generally indicates an underwriting profit and a combined ratio over 100% generally indicates an underwriting loss. The combined ratio does not reflect investment income, federal income taxes, or Parent company income or expense.

We use after-tax investment income and net realized gains or losses as the key measure in assessing the performance of our investments segment. Our investment philosophy includes setting certain risk and return objectives for the fixed income, equity, and other investment portfolios. We generally review our performance by comparing our returns for each of these components of our portfolio to a weighted-average benchmark of comparable indices.

Our operations are heavily regulated by the state insurance regulators in the states in which our Insurance Subsidiaries are organized and licensed or authorized to do business. In these states, the Insurance Subsidiaries are required to file financial statements prepared in accordance with SAP, which are promulgated by the National Association of Insurance Commissioners ("NAIC") and adopted by the various states. Because of these state insurance regulatory requirements, we use SAP to manage our insurance operations. The purpose of these state insurance regulations is to protect policyholders, so SAP focuses on solvency and liquidation value unlike GAAP, which focuses on shareholder returns as a going concern. Consequently, significant differences exist between GAAP and SAP as discussed below:

- With regard to the underwriting expense ratio: As noted above, NPE is the denominator for GAAP; whereas NPW is the denominator for SAP.

- With regard to income or expense recognition:

- Underwriting expenses that are incremental and directly related to the successful acquisition of insurance policies are deferred and amortized to expense over the life of an insurance policy under GAAP; whereas they are recognized when incurred under SAP.

- Deferred taxes are recognized as either a deferred tax expense or a deferred tax benefit in income under GAAP; whereas they are recorded directly to surplus under SAP.

- Changes in the value of our alternative investments, which are part of our other investment portfolio on our Consolidated Balance Sheets, are recognized in income under GAAP; whereas they are recorded directly to surplus under SAP and only recognized in income when cash is received.

- With regard to loss and loss expense reserves:

- Under GAAP, reinsurance recoverables, net of a provision for uncollectible reinsurance, are presented as an asset on the Consolidated Balance Sheets, whereas under SAP, this amount is netted within the liability for loss and loss expense reserves.

- Under GAAP, for those structured settlements for which we did not obtain a release, a deposit asset and the related loss reserve are included on the Consolidated Balance Sheets, whereas under SAP, the structured settlement transaction is recorded as a paid loss.

The following table reconciles losses and loss expense reserves under GAAP and SAP at December 31 as follows:

($ in thousands)	2016	2015
GAAP losses and loss expense reserves – net	$3,691,719	3,517,728
Statutory reinsurance recoverable on unpaid losses and loss expenses	(616,700)	(556,719)
Structured settlements	(12,127)	(9,104)
Statutory losses and loss expense reserves	$3,062,892	2,951,905

The following table reconciles reinsurance recoverables under GAAP and SAP at December 31:

($ in thousands)	2016	2015
GAAP reinsurance recoverable – net	$621,537	561,968
Reinsurance recoverable on paid losses and loss expenses	(10,337)	(10,949)
GAAP reinsurance recoverable on unpaid losses and loss expenses	611,200	551,019
Provision for uncollectible reinsurance	5,500	5,700

Statutory reinsurance recoverable on unpaid losses and loss expenses	$616,700	556,719

- With regard to equity under GAAP and statutory surplus under SAP:

- The timing difference in income due to the GAAP/SAP differences in expense recognition creates a difference between GAAP equity and SAP statutory surplus.

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- Regarding unrealized gains and losses on fixed income securities:

- Under GAAP, unrealized gains and losses on available-for-sale (“AFS”) fixed income securities are recognized in equity; but they are not recognized in equity on purchased held-to-maturity (“HTM”) securities. Unrealized gains and losses on HTM securities transferred from an AFS designation are amortized from equity as a yield adjustment.

- Under SAP, unrealized gains and losses on fixed income securities assigned certain NAIC Securities Valuation Office ratings (specifically designations of one or two, which generally equate to investment grade bonds) are not recognized in statutory surplus. However, unrealized losses on fixed income securities that have a designation of three or higher are recognized in statutory surplus.

- Certain assets are designated under insurance regulations as “non-admitted,” including, but not limited to, certain deferred tax assets, overdue premium receivables, furniture and equipment, and prepaid expenses. These assets are recorded in the Consolidated Balance Sheets net of applicable allowances under GAAP but are excluded from statutory surplus under SAP.

- Regarding the recognition of the liability for our defined benefit plans, under both GAAP and SAP, the liability is recognized in an amount equal to the excess of the projected benefit obligation over the fair value of the plan assets. However, changes in this balance not otherwise recognized in income are recognized in equity as a component of other comprehensive income (“OCI”) under GAAP and in statutory surplus under SAP.

Our combined insurance segments' GAAP results for the last three completed fiscal years are shown on the following table:

	Years ended December 31,			
($ in thousands)	2016		2015	2014
Combined Insurance Segments Results				
NPW	$2,237,288		2,069,904	1,885,280
NPE	$2,149,572		1,989,909	1,852,609
Losses and loss expenses incurred	1,234,797		1,148,541	1,157,501
Net underwriting expenses incurred	759,194		686,120	610,783
Policyholder dividends	3,648		6,219	6,182
Underwriting income	$151,933		149,029	78,143
Ratios:				
Loss and loss expense ratio	57.4	%	57.7	62.5
Underwriting expense ratio	35.3		34.5	33.0
Policyholder dividends ratio	0.2		0.3	0.3
GAAP combined ratio	92.9	%	92.5	95.8
Statutory combined ratio	91.8	%	92.4	95.7

For revenue and profitability measures for each of our three insurance segments, see Note 11. "Segment Information" in Item 8. "Financial Statements and Supplementary Data." of this Form 10-K. We do not allocate assets to individual segments. In addition, for analysis of our insurance segments' results, see "Results of Operations and Related Information by Segment" in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations." of this Form 10-K.

Insurance Segments

Overview

We derive all of our insurance operations revenue from selling insurance products and services to businesses and individuals for premium. The majority of our sales are annual insurance policies. Our most significant cost associated with the sale of insurance policies is our losses and loss expenses.

To that end, we establish losses and loss expense reserves that are estimates of the amounts that we will need to pay in the future for claims and related expenses for insured losses that have already occurred. Estimating reserves as of any given date involves a considerable degree of judgment and is inherently uncertain. We regularly review our reserving techniques and our overall amount of reserves. For disclosures concerning our unpaid losses and loss expenses, as well as a full discussion regarding our loss reserving process, see "Critical Accounting Policies and Estimates" in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations." of this Form 10-K. Additionally, for an analysis of changes in our loss reserves over the most recent three-year period, see Note 9. "Reserves for Losses and Loss Expenses" in Item 8. "Financial Statements and Supplementary Data." of this Form 10-K.

As part of our risk management efforts associated with the sale of our products and services, we use reinsurance to protect our capital resources and insure us against losses on the risks that we underwrite. We use two main reinsurance vehicles: (i) a reinsurance pooling agreement among our Insurance Subsidiaries in which each company agrees to share in premiums and losses based on certain specified percentages; and (ii) reinsurance contracts and arrangements with third parties that cover various policies that we issue to our customers. For information regarding reinsurance treaties and agreements, see "Reinsurance" in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations." of this Form 10-K.

Insurance Segments Products and Services

The types of insurance we sell in our insurance segments fall into three broad categories:

- Property insurance, which generally covers the financial consequences of accidental loss of an insured’s real and/or personal property. Property claims are generally reported and settled in a relatively short period of time.

- Casualty insurance, which generally covers the financial consequences of employee injuries in the course of employment and bodily injury and/or property damage to a third party as a result of an insured’s negligent acts, omissions, or legal liabilities. Casualty claims may take several years to be reported and settled.

- Flood insurance, which generally covers property losses under the Federal Government's Write Your Own ("WYO") Program of the NFIP. Flood insurance premiums and losses are 100% ceded to the NFIP.

We underwrite our business primarily through traditional insurance. The following table shows the principal types of policies we write:

Types of Policies	Category of Insurance	Standard Commercial Lines	Standard Personal Lines	E&S Lines
Commercial Property (including Inland Marine)	Property	X		X
Commercial Automobile	Property/Casualty	X		X
	Casualty	X		X

General Liability (including Excess Liability/Umbrella)			
Workers Compensation	Casualty	X	
Businessowners' Policy	Property/Casualty	X	
Bonds (Fidelity and Surety)	Casualty	X	
Homeowners	Property/Casualty		X
Personal Automobile	Property/Casualty		X
Personal Umbrella	Casualty		X
Flood[1]	Flood/Property	X	X

[1]Flood insurance premiums and losses are 100% ceded to the Federal Government's WYO Program. Certain other policies contain minimal flood or flood related coverages.

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Product Development and Pricing

Our insurance policies are contracts that specify our coverages - what we will pay to or for an insured upon a specified loss. We develop our coverages internally and by adopting and modifying forms and statistical data licensed from third party aggregators, notably Insurance Services Office, Inc. ("ISO"), American Association of Insurance Services, Inc. ("AAIS"), and the National Council on Compensation Insurance, Inc. ("NCCI"). Determining the price to charge for our coverages involves consideration of many variables. At the time we underwrite and issue a policy, we do not know what our actual costs for the policy will be in the future. To calculate and project future costs, we examine and analyze historical statistical data and factor in expected changes in loss trends. Additionally, we have developed predictive models for certain of our Standard Commercial and Standard Personal Lines. Predictive models analyze historical statistical data regarding our customers and their loss experience, rank our policies, or potential policies, based on this analysis, and apply this risk data to current and future customers to predict the likely profitability of an account. A model's predictive capabilities are limited by the amount and quality of the statistical data available. As a super-regional insurance group, our loss experience is not always statistically large enough to analyze and project future costs. Consequently, we use ISO, AAIS, and NCCI data to supplement our proprietary data.

Customers and Customer Markets

We categorize our Standard Commercial Lines customers into the following strategic business units ("SBUs"):

	Percentage of Standard Commercial Lines	Description
Contractors	35%	General contractors and trade contractors
Mercantile and Services	26%	Focuses on retail, office, service businesses, restaurants, golf courses, and hotels
Community and Public Services	20%	Focuses on public entities, social services, and religious institutions
Manufacturing and Wholesale	18%	Includes manufacturers, wholesalers, and distributors
Bonds	1%	Includes fidelity and surety
Total Standard Commercial Lines	100%	

We do not categorize our Standard Personal Line customers or our E&S Line customers by SBU.

The following are general guidelines that can be used as indicators of the approximate size of our customers:
- The average Standard Commercial Lines account size is approximately $11,000.
- The average Standard Personal Lines account size is approximately $2,000.
- The average E&S Lines policy is approximately $3,000.

Although our average E&S Lines policy size is approximately $3,000, we have recently expanded into the wholesale brokerage business and therefore expect this average policy size to increase gradually over time.

No one customer accounts for 10% or more of our insurance segments in the aggregate.

Geographic Markets

We principally sell in the following geographic markets:

- Standard Commercial Lines products and services are primarily sold in 22 states located in the Eastern and Midwestern regions of the United States and the District of Columbia. In 2017, we also plan on expanding into the

Southwest region of the United States.

- Standard Personal Lines products and services are primarily sold in 13 states located in the Eastern and Midwestern regions of the United States, except for the flood portion of this segment, which is sold in all 50 states and the District of Columbia.

- E&S Lines are sold in all 50 states and the District of Columbia.

We believe this geographic diversification lessens our exposure to regulatory, competitive, and catastrophic risk. The following table lists the principal states in which we write business and the percentage of total NPW each represents for the last three fiscal years:

	Years ended December 31,			
% of NPW	2016		2015	2014
New Jersey	20.2	%	21.2	22.6
Pennsylvania	11.8		11.7	11.4
New York	7.8		7.2	7.1
Maryland	5.4		5.4	5.6
Virginia	4.6		4.6	4.6
Georgia	4.3		4.1	3.8
Indiana	3.9		4.3	4.5
North Carolina	3.9		3.7	3.4
Illinois	3.6		3.7	4.0
Michigan	3.3		3.5	3.3
South Carolina	3.1		3.0	3.1
Massachusetts	2.9		2.8	2.7
Other states	25.2		24.8	23.9
Total	100.0	%	100.0	100.0

We support geographically diversified business from our corporate headquarters in Branchville, New Jersey, and our six regional branches (referred to as our "Regions"). The table below lists our Regions and where they have office locations:

Region	Office Location
Heartland	Carmel, Indiana
New Jersey	Hamilton, New Jersey
Northeast	Branchville, New Jersey
Mid-Atlantic	Allentown, Pennsylvania and Hunt Valley, Maryland
Southern	Charlotte, North Carolina
E&S	Horsham, Pennsylvania and Scottsdale, Arizona

We recently established a Southwest region in anticipation of expanding our geographic footprint for Standard Commercial Lines. We currently expect to start writing premium in Arizona in the latter half of 2017 and may consider opening up more states in the Southwest region. In addition, we also expect to start writing business in New Hampshire in the latter half of 2017. These new states leverage our current operating model, which is predicated around our field-based underwriting, franchise distribution model, and excellent customer service. Over time, we currently expect to expand into additional states.

Distribution Channel

We sell our insurance products and services through the following types of distribution partners:

- Standard Commercial Lines: independent retail agents;
- Standard Personal Lines: independent retail agents; and
- E&S Lines: wholesale general agents and brokers.

We pay our distribution partners commissions that are based on a percentage of gross premiums written, and in some cases are further based on profit calculations, and other consideration for business placed with us. We seek to compensate them fairly and in a manner consistent with market practices. No one distribution partner is responsible for 10% or more of our combined insurance segments' premium.

As our customers rely heavily on our distribution partners, it is sometimes difficult to develop brand recognition as these customers cannot always differentiate between their insurance agents and their insurance carriers. We continue to evolve our service model, post policy-acquisition, with an increasing focus on the customer. Our goal is to provide our customers with 24/7 access to transactional capabilities and account information. Customers expect this level of access from every business and, while many insurers offer such solutions in the personal lines space, we want to be a leader in this area for the small commercial lines market. When combined with our digital strategy, we believe this level of access will significantly improve the customer experience. Within our digital strategy, we provide self-servicing capabilities via a mobile application and a web-based portal where our customers have access to basic account information on demand. These efforts will allow us to continue to offer customers a shared experience with our distribution partners, while positioning us to more directly demonstrate our value proposition.

Independent Retail Agents

According to a study released in 2016 by the Independent Insurance Agents & Brokers of America, independent retail insurance agents and brokers write approximately 80% of standard commercial lines insurance and 35% of standard personal lines insurance in the United States. We believe that independent retail insurance agents will remain a significant force in overall insurance industry premium production because they represent more than one insurance carrier and therefore are able to provide a wider choice of commercial and personal lines insurance products and risk-based consultation to customers.

We currently have approximately 1,180 independent retail agents selling our Standard Commercial Lines business, 710 of which also sell our Standard Personal Lines business (excluding flood). In total, these 1,180 distribution partners have approximately 2,200 office locations selling our business. In addition, we have approximately 5,600 distribution partners selling our flood insurance products.

In a 2016 survey, we received an overall satisfaction score of 8.76 out of 10 from our standard market distribution partners, which, we believe, highlighted their satisfaction with our products, the ease of reporting claims, and the professionalism and effectiveness of our employees.

Wholesale General Agents

E&S Lines are written almost exclusively through approximately 80 wholesale general agents and brokers with 205 office locations, who are our distribution partners in the E&S market, although we recently expanded into the wholesale brokerage business. We have granted contract binding authority to these partners for business that meets our prescribed underwriting and pricing guidelines.

Marketing

Our primary marketing strategy is to:

- Use an empowered field underwriting model to provide our Standard Commercial Lines retail distribution partners with resources within close geographic proximity to their businesses and our customers. For further discussion on this, see the “Field Model and Technology” section below.

- Develop close relationships with each distribution partner, as well as their principals and producers: (i) by soliciting their feedback on products and services; (ii) by advising them concerning our product developments; and (iii) through education and development focusing on producer recruitment, sales training, enhancing customer experience, online marketing, and distribution operations.

- Develop with each distribution partner, and then carefully monitor, annual goals regarding: (i) types and mix of risks placed with us; (ii) amount of premium or number of policies placed with us; (iii) customer service and retention levels; and (iv) profitability of business placed with us.

- Develop brand recognition with our customers through our marketing efforts, which include radio and television advertising, as well as advertising at certain national and local sporting events.

Field Model and Technology

We use the service mark “High-tech x High-touch = HT$^{2\,SM}$” to describe our business strategy. “High-tech” refers to our technology that we use to make it easy for our distribution partners and customers to do business with us. “High-touch” refers to the close relationships that we have with our distribution partners and customers through our field business model.

High Tech

We leverage the use of technology in our business. We have made significant investments in information technology platforms, integrated systems, internet-based applications, and predictive modeling initiatives. We do this to provide:

- Our distribution partners and customers with access to accurate business information and the ability to process certain transactions from their locations, seamlessly integrating those transactions into our systems;

- Our underwriters with targeted underwriting and pricing tools to enhance profitability while growing the business;

- Our workers compensation claims adjusters with predictive tools to indicate when claims are likely to escalate;
- Our Special Investigations Unit ("SIU") investigators access to our business intelligence systems to better identify claims with potential fraudulent activities;
- Our claims recovery and subrogation departments with the ability to expand and enhance their models through the use of our business intelligence systems; and
- Our customers with 24/7 access to transactional capabilities and information through a web-based customer portal and a customer mobile application.

In 2016, we received the following awards:

- NetVu Automation Excellence Award, which recognizes carriers that make it easier for agencies to do business;
- ACORD Leadership Award, which is presented to an organization or an individual demonstrating leadership in the areas of standards development, advocacy, and/or implementation. It recognizes carriers that are guiding the insurance industry towards greater clarity in the sharing of insurance data; and
- IIBA Leadership Excellence in the Advancement of the Practice of Business Analysis, which is presented annually to a company that adapts, optimizes, and evolves business analysis best practices and standards by implementing effective tools, processes, and methodologies that enable better business capabilities.

We manage our information technology projects through an Enterprise Project Management Office ("EPMO") governance model. The EPMO is supported by certified project managers who apply methodologies to: (i) communicate project management standards; (ii) provide project management training and tools; (iii) manage projects; (iv) review project status and cost; and (v) provide non-technology project management consulting services to the rest of the organization. The EPMO, which includes senior management representatives from all major business areas, corporate functions, and information technology, meets regularly to review all major initiatives and receives reports on the status of other projects. We believe the EPMO is an important factor in the success of our technology implementation.

Our primary technology operations are located in Branchville, New Jersey and Glastonbury, Connecticut. We have agreements with multiple consulting, information technology, and service providers for supplemental staffing services. Collectively, these providers supply approximately 54% of our skilled technology capacity and are principally based in the U.S., although we do contract with some service providers who are based, or utilize resources, outside the U.S. We retain management oversight of all projects and ongoing information technology production operations. We believe we would be able to manage an efficient transition to new vendors without significant impact to our operations if we terminated an existing vendor.

High Touch

To support our distribution partners, we employ a field model for both underwriting and claims, with various employees in the field, usually working from home offices near our distribution partners. We believe that we build better and stronger relationships with our distribution partners because of the close proximity of our field employees, and the resulting direct interaction with our distribution partners and customers. At December 31, 2016, we had approximately 2,250 employees, of which 310 worked in the field, 870 worked in one of our regional offices, and the remainder worked in our corporate office.

Underwriting Process

Our underwriting process requires communication and interaction among:

- Our Regions, which establish and execute upon: (i) annual premium and pricing goals; (ii) specific new business targets by distribution partner; and (iii) profit improvement plans as needed across lines, states, and/or distribution partners;
- Our corporate underwriting department, which develops our underwriting appetite, products, policy forms, pricing, and underwriting guidelines for our standard market and E&S market business;
- Our corporate actuaries who assist in the determination of rate and pricing levels, while monitoring pricing and profitability along with the Regions, corporate underwriting department, and business intelligence staff for our standard market and with E&S market business;

- Our distribution partners, which include independent retail agents for our standard market business and wholesale general agents for our E&S market business, that provide front-line underwriting within our prescribed guidelines;

- Our Agency Management Specialists ("AMSs"), who: (i) manage the growth and profitability of business that their assigned distribution partners write with us; and (ii) perform field underwriting for new Standard Commercial Lines business;

- Our territory managers who have oversight of the AMS production team, ensure that: (i) annual profit and growth plans are developed on a state by state basis; (ii) the achievement of these state plans are monitored at the state, AMS territory and account level; and (iii) individual agency plans are developed and monitored for achievement annually.

- Our Standard Commercial Lines small business teams that are responsible for handling: (i) new business in need of review that was submitted by our distribution partners through our automated underwriting platform, One & Done®; and (ii) other new small accounts and middle market accounts with low underwriting complexity;

- Our Safety Management Specialists ("SMSs"), who provide a wide range of front-line safety management services to our Standard Commercial Lines customers as discussed more fully below;

- Our regional underwriters, who manage the in force policies for their assigned distribution partners, including, but not limited to, managing profitability and pricing levels within their portfolios by developing policy-specific pricing;

- Our premium auditors, who supplement the underwriting process by working with insureds to accurately audit exposures for certain policies that we write;

- Our field technical coordinators, who are responsible for technology assistance and training to aid our employees and distribution partners;

- Our Standard Personal Lines Marketing Specialists ("PLMSs"), who have primary responsibility for identifying new opportunities to grow our Standard Personal Lines; and

- Our E&S territory managers, who have primary responsibility for identifying new opportunities to grow our E&S Lines.

We have an underwriting service center ("USC") located in Richmond, Virginia. The USC assists our distribution partners by servicing certain Standard Personal Lines and smaller Standard Commercial Lines accounts. At the USC, many of our employees are licensed agents who respond to customer inquiries about insurance coverage, billing transactions, and other matters. For the convenience of using the USC and our handling of certain transactions, our distribution partners agree to receive a slightly lower than standard commission for the premium associated with the USC. As of December 31, 2016, our USC was servicing Standard Commercial Lines NPW of $51.8 million and Standard Personal Lines NPW of $28.5 million. The $80.3 million total serviced by the USC represents 4% of our total NPW.

As mentioned above, our field model provides a wide range of front-line safety management services focused on improving a Standard Commercial Lines insured's safety and risk management programs. Our service mark "Safety Management: Solutions for a safer workplace℠ includes: (i) risk evaluation and improvement surveys intended to evaluate potential exposures and provide solutions for mitigation; (ii) internet-based safety management educational resources, including a large library of coverage-specific safety materials, videos and online courses, such as defensive driving and employee educational safety courses; (iii) thermographic infrared surveys aimed at identifying electrical hazards; and (iv) Occupational Safety and Health Administration construction and general industry certification training. Risk improvement efforts for existing customers are designed to improve loss experience and policyholder retention through valuable ongoing consultative service. Our safety management goal is to work with our customers to identify, mitigate, and eliminate potential loss exposures.

Claims Management

Effective, fair, and timely claims management is one of the most important services that we provide to our customers and distribution partners. It is also one of the critical factors in achieving underwriting profitability. We have structured our claims organization to emphasize: (i) cost-effective delivery of claims services and control of losses and loss expenses; and (ii) maintenance of timely and adequate claims reserves. In connection with our Standard Commercial Lines and Standard Personal Lines, we achieve better claim outcomes through a field model that locates claim representatives in close proximity to our customers and distribution partners.

We have a claims service center (“CSC”), co-located with the USC, in Richmond, Virginia. The CSC receives first notices of loss from our customers and claimants related to our Standard Commercial Lines and Standard Personal Lines and manages routine automobile and property claims with no injuries. The CSC is designed to help: (i) reduce the claims settlement time on first- and third-party automobile property damage claims; (ii) increase the use of body shops, glass repair shops, and car rental agencies that have contracted with us at discounted rates and specified service levels; (iii) handle and settle small property claims; and (iv) investigate and negotiate auto liability claims. The CSC, as appropriate, will assign claims to the appropriate regional claims office or other specialized area within our claims organization.

Claims Management Specialists (“CMSs”) are responsible for investigating and resolving the majority of our standard marketplace commercial automobile bodily injury, general liability, and property losses with low severities. We also have Property Claims Specialists ("PCSs") to handle property claims with severities ranging from $5,000 to $100,000. Strategically located throughout our footprint, CMSs and PCSs are able to provide highly responsive customer and distribution partner service to quickly resolve claims within their authority.

Our E&S claims processing is consistent with our Standard Commercial Lines and Standard Personal Lines claims processing. E&S claims are handled in our standard lines regional offices and are segregated by line of business (property and liability), litigation, and complexity. Our Quality Assurance Unit conducts monthly file reviews on all of our operations to validate compliance with our quality claim handling standards. Complex claims oversight is handled by the Complex Claims Unit ("CCU").

We have implemented specialized claims handling as follows:

- Liability claims with high severity or technically complex losses are handled by the CCU. The CCU specialists are primarily field based and handle losses based on injury type or with severities greater than $250,000.

- Litigated matters not meeting the CCU criteria are handled within our regional offices by our litigation claim units. These teams are aligned based upon jurisdictional knowledge and technical experience. In addition, they are supervised by litigation managers within the regional claim offices. These claims are segregated from the CMSs to allow for focused management.

- Workers compensation claims handling is centralized in Charlotte, North Carolina. Jurisdictionally trained and aligned medical only and lost-time adjusters manage non-complex workers compensation claims within our footprint. Claims with high exposure and/or significant escalation risk are referred to the workers compensation strategic case management unit.

- Low severity/high volume property claims are handled by the CSC. Certain complex claims that do not involve structural damage (i.e. employee dishonesty and equipment breakdown losses) are handled by a small group of specialists in the CSC.

- The Large Loss Unit ("LLU") handles complex property claims, typically those in excess of $100,000.

- All asbestos and environmental claims are referred to our specialized corporate Environmental Unit, which also handles latent claims.

This structure allows us to provide experienced adjusting to each claim category.

All insurance segments are supported by the SIU that investigates potential insurance fraud and abuse, and supports efforts by regulatory bodies and trade associations to curtail the cost of fraud. We have developed a proprietary SIU fraud detection model that identifies the potential fraud cases early on in the life of the claim. The SIU adheres to uniform internal procedures to improve detection and take action on potentially fraudulent claims. It is our practice to notify the proper authorities of SIU findings, which we believe sends a clear message that we will not tolerate fraud against us or our customers. The SIU supervises anti-fraud training for all claims adjusters and AMSs.

Insurance Operations Competition

Our insurance segments face competition from public, private, and mutual insurance companies, which may have lower operating costs and/or lower cost of capital than we do. Some, like us, rely on partners for the distribution of their products and services and have competition within their distribution channel, making growth in market share difficult. Other insurance carriers either employ their own agents who only represent them or use a combination of distribution partners, captive agents, and direct marketing. The following provides information on the competition facing our insurance segments:

Standard Commercial Lines

The Standard Commercial Lines property and casualty insurance market is highly competitive and market share is fragmented among many companies. We compete with two types of companies, primarily on the basis of price, coverage terms, claims service, customer experience, safety management services, ease of technology usage, and financial ratings:

- Regional insurers, such as Cincinnati Financial Corporation, Erie Indemnity Company, The Hanover Insurance Group, Inc., and United Fire Group, Inc.; and

- National insurers, such as The Hartford Financial Services Group, Inc., Liberty Mutual Holding Company Inc., Nationwide Mutual Insurance Company, The Travelers Companies, Inc., and Zurich Insurance Group, Ltd.

Standard Personal Lines

Our Standard Personal Lines face competition primarily from the regional and national carriers noted above, as well as companies such as State Farm Mutual Automobile Insurance Company and Allstate Corporation. In addition, we face competition from direct insurers such as The Government Employees Insurance Company and The Progressive Corporation, which primarily offer personal auto coverage and market through a direct-to-consumer model.

E&S Lines

Our E&S Lines face competition from the E&S subsidiaries of the regional and national carriers named above, as well as the following companies:

- Nautilus Insurance Group, a member of W. R. Berkley Company;
- Colony Specialty, a member of the Argo Group International Holding Ltd;
- Western World Insurance Group, a member of the Validus Group;
- Century Insurance Group, a member of the Meadowbrook Insurance Group;
- The Burlington Insurance Company, a member of IFG Companies;
- United States Liability Insurance Group, a member of Berkshire Hathaway, Inc.;
- Scottsdale Insurance Company, a member of Nationwide Mutual Insurance Company; and
- Markel Corporation.

Other

In addition, both existing competitors and new industry participants are developing new platforms that are leveraging technology and the Internet to provide a low cost "direct to the customer" model. New competitors emerging under this digital platform include, but are not limited to, Lemonade, Attune, and Metromile. Many of these new entrants have significant financial backing. Further, reinsurers have entered certain primary property and casualty insurance markets to diversity their operations and compete with us.

Industry Comparison

A comparison of certain statutory ratios for our combined insurance segments and our industry are shown in the following table:

	Simple Average of All Periods Presented		2016	2015	2014	2013	2012
Insurance Operations Ratios:[1]							
Loss and loss expense	62.5	%	57.4	57.7	62.4	64.5	70.7
Underwriting expense	33.4		34.2	34.4	33.0	32.8	32.6
Policyholder dividends	0.2		0.2	0.3	0.3	0.2	0.2
Statutory combined ratio	96.2		91.8	92.4	95.7	97.5	103.5
Growth in NPW	8.6		8.1	9.8	4.1	8.7	12.2
Industry Ratios:[1, 2]							
Loss and loss expense	70.7		73.0	69.8	69.3	67.7	73.7
Underwriting expense	27.7		27.1	27.8	27.4	28.0	28.2
Policyholder dividends	0.7		0.6	0.7	0.7	0.7	0.6
Statutory combined ratio	99.1		100.7	98.3	97.4	96.4	102.5
Growth in NPW	3.8		2.7	3.3	4.3	4.4	4.4
Favorable (Unfavorable) to Industry:							
Statutory combined ratio	2.9		8.9	5.9	1.7	(1.1)	(1.0)
Growth in NPW	4.8		5.4	6.5	(0.2)	4.3	7.8

Note: Some amounts may not foot due to rounding.

[1]The ratios and percentages are based on SAP prescribed or permitted by state insurance departments in the states in which the Insurance Subsidiaries are domiciled.
[2]Source: A.M. Best. The industry ratios for 2016 have been estimated by A.M. Best.

Insurance Regulation

Primary Oversight by the States in Which We Operate

Our insurance segments are heavily regulated. The primary public policy behind insurance regulation is the protection of policyholders and claimants over all other constituencies, including shareholders. By virtue of the McCarran-Ferguson Act, Congress has largely delegated insurance regulation to the various states. The primary market conduct and financial regulators of our Insurance Subsidiaries are the departments of insurance in the states in which they are organized and are licensed. For a discussion of the broad regulatory, administrative, and supervisory powers of the various departments of insurance, refer to the risk factor that discusses regulation in Item 1A. "Risk Factors." of this Form 10-K.

Our various state insurance regulators are members of the NAIC. The NAIC has codified SAP and other accounting reporting formats and drafts model insurance laws and regulations governing insurance companies. An NAIC model only becomes law when it is enacted in the various state legislatures or promulgated as a regulation by the state insurance department. The adoption of certain NAIC model laws and regulations, however, is a key aspect of the NAIC Financial Regulations Standards and Accreditation Program.

NAIC Monitoring Tools

Among the NAIC's various financial monitoring tools that are material to the regulators in states in which our Insurance Subsidiaries are organized are the following:

- The Insurance Regulatory Information System (“IRIS”). IRIS identifies 13 industry financial ratios and specifies “usual values” for each ratio. Departure from the usual values on four or more of the financial ratios can lead to inquiries from individual state insurance departments about certain aspects of the insurer's business. Our Insurance Subsidiaries have consistently met the majority of the IRIS ratio tests.

- Risk-Based Capital. Risk-based capital is measured by four major areas of risk to which property and casualty insurers are exposed: (i) asset risk; (ii) credit risk; (iii) underwriting risk; and (iv) off-balance sheet risk. Insurers face a steadily increasing amount of regulatory scrutiny and potential intervention as their total adjusted capital declines below two times their "Authorized Control Level". Based on our 2016 statutory financial statements, which have been prepared in accordance with SAP, the total adjusted capital for each of our Insurance Subsidiaries substantially exceeded two times their Authorized Control Level.

- Annual Financial Reporting Regulation (referred to as the "Model Audit Rule"). The Model Audit Rule, which is modeled closely on the Sarbanes-Oxley Act of 2002, as amended ("Sarbanes-Oxley Act"), regulates: (i) auditor independence; (ii) corporate governance; and (iii) internal control over financial reporting. As permitted under the Model Audit Rule, the Audit Committee of the Board of Directors (the “Board”) of the Parent also serves as the audit committee of each of our Insurance Subsidiaries.

- Own Risk and Solvency Assessment ("ORSA"). ORSA requires insurers to maintain a framework for identifying, assessing, monitoring, managing, and reporting on the “material and relevant risks” associated with the insurers' (or insurance groups') current and future business plans. ORSA, which has been adopted by the state insurance regulators of our Insurance Subsidiaries, requires companies to file an internal assessment of their solvency with insurance regulators annually. Although no specific capital adequacy standard is currently articulated in ORSA, it is possible that such standard will be developed over time and may increase insurers' minimum capital requirements, which could adversely impact our growth and return on equity.

In addition to the formal regulation above, we are subject to capital adequacy monitoring by rating agencies, for example, Best's Capital Adequacy Ratio ("BCAR"). BCAR, which was developed by A.M. Best, examines an insurer's leverage, underwriting activities, and financial performance.

Federal Regulation

Notable federal legislation and administrative policies that affect the insurance industry are:

- The Terrorism Risk Insurance Program Reauthorization Act ("TRIPRA");
- The Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”); and
- Various privacy laws that apply to us because we have personal non-public information, including the:

Gramm-Leach-Bliley Act;
Fair Credit Reporting Act;
Drivers Privacy Protection Act; and
Health Insurance Portability and Accountability Act.

Like all businesses, we are required to enforce the economic and trade sanctions of the Office of Foreign Assets Control (“OFAC”).

FEMA oversees the WYO Program enacted by Congress. Congress sets the WYO Program's budgeting, rules, and rating parameters. Two significant pieces of legislation that impact the WYO Program are the Biggert-Waters Flood Insurance Reform Act of 2012 ("Bigger-Waters Act") and the Homeowner Flood Insurance Affordability Act of 2014 ("Flood Affordability Act"). The Biggert-Waters Act: (i) extended the NFIP funding to September 30, 2017; and (ii) moved the program to more market based rates for certain flood policies. The Flood Affordability Act repealed and modified certain provisions in the Biggert-Waters Act regarding premium adjustments. The NFIP authorization expires on September 30, 2017. Congress has been considering options to the NFIP and it is expected that the program will be extended.

In response to the financial markets crises in 2008 and 2009, the Dodd-Frank Act was enacted in 2010. This law provided for, among other things, the following:

- The establishment of the Federal Insurance Office ("FIO") under the United States Department of the Treasury;
- Federal Reserve oversight of financial services firms designated as systemically important; and
- Corporate governance reforms for publicly traded companies.

The FIO, the Federal Reserve, state regulators, and other regulatory bodies have been developing models for capital standards, negotiating a covered agreement on reinsurance collateral, and have been gathering data as required under the Dodd-Frank Act. Changes to the Dodd-Frank Act and FIO are expected in 2017 as the Trump Administration and the Republican Congress seek opportunities to pare down the Dodd-Frank Act and its regulations. For additional information on the potential impact of the Dodd-Frank Act, refer to the risk factor related to this legislation within Item 1A. "Risk Factors." of this Form 10-K.

International Regulation

We believe that development of global capital standards will influence the development of similar standards by domestic regulators. Notable international developments include the following:

- In 2014, the International Association of Insurance Supervisors proposed Basic Capital Standards for Global Systemically Important Insurers as well as a uniform capital framework for internationally active insurers; and

- The European Union enacted Solvency II, which sets out new requirements on capital adequacy and risk management for insurers operating in Europe, which was implemented in 2016.

For additional information on the potential impact of international regulation on our business, refer to the risk factor related to regulation within Item 1A. “Risk Factors.” of this Form 10-K.

Investment Segment

Our Investment segment invests insurance premiums, as well as amounts generated through our capital management strategies, which may include the issuance of debt and equity securities, to generate investment income and to satisfy obligations to our customers, our shareholders, and our debt holders, among others. At December 31, 2016, our investment portfolio consisted of the following:

Category of Investment

($ in millions, except invested assets per dollar of stockholders' equity)	Carrying Value	% of Investment Portfolio
Fixed income securities	$ 4,894.1	92
Equity securities	146.7	2
Short-term investments	221.7	4
Other investments, including alternatives	102.4	2
Total	$ 5,364.9	100
Invested assets per dollar of stockholders' equity	$ 3.50	

Our investment philosophy includes certain return and risk objectives for the fixed income, equity, and other investment portfolios. After-tax yield and income generation are key drivers to our investment strategy, which has historically been balanced with a long-term “buy-and-hold,” low turnover approach.

During 2016, we determined that a more active management approach to our investment portfolio was appropriate to maximize the risk-adjusted after-tax income and total return of the portfolio, while maintaining a similar level of credit quality and duration risk. We evaluated our previous buy-and-hold low turnover approach in the context of the current market environment, and concluded that a change was appropriate to more effectively diversify, navigate, and manage the portfolio in response to a persistently low and volatile interest rate environment, the potential for rising inflation, and an uncertain political and tax landscape.

To execute on this revised approach, we hired several new investment managers who were on-boarded in the fourth quarter of 2016. We modestly increased our exposure to below investment grade fixed income securities, private equity, and private credit strategies to further diversify our allocation within risk assets, which principally includes public equities, high-yield fixed income securities, and private equity, in conjunction with repositioning the portfolio to a long-term target risk asset allocation of approximately 10% of total invested assets. While our approach to managing the investment portfolio has changed, our core investment philosophy has not changed. We remain focused on diversification, capital preservation, investment quality, and liquidity to meet our needs and obligations.

For further information regarding our risks associated with the overall investment portfolio, see Item 7A. “Quantitative and Qualitative Disclosures About Market Risk.” and Item 1A. “Risk Factors.” of this Form 10-K. For additional information about investments, see the section entitled, “Investments,” in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” and Item 8. “Financial Statements and Supplementary Data.” Note 5. of this Form 10-K.

Reports to Security Holders

We file with the SEC all required disclosures, including our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements, and other required information under Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended ("Exchange Act"). We provide access to these filed materials on our Internet website, www.Selective.com.

Item 1A. Risk Factors.

Any of the following risk factors could cause our actual results to differ materially from historical or anticipated results. They could have a significant impact on our business, liquidity, capital resources, results of operations, financial condition, and debt ratings. These risk factors might affect, alter, or change actions that we might take in executing our long-term capital strategy, including, but not limited to, contributing capital to any or all of the Insurance Subsidiaries, issuing additional debt and/or equity securities, repurchasing our equity securities, redeeming our fixed income securities, or increasing or decreasing stockholders' dividends. This list of risk factors is not exhaustive, and others may exist.

In an effort to highlight recent trends that may impact our business, we have identified risk factors impacted by: (i) potential changes to the U.S. federal tax code; (ii) other impacts of the Presidential election and Republican Congress; and (iii) other evolving legislation. Following these sections are the ongoing risks that continue to impact our business segments, as well as our corporate structure and governance.

U.S. Federal Tax Code

Changes in tax legislation initiatives could adversely affect our results of operations and financial condition.
We are subject to the tax laws and regulations of U.S. federal, state, and local governments, which may be amended in ways that adversely impact us. Recently, there has been significant debate about reform of the current U.S. federal tax code. Although some reform proposals may be beneficial to the insurance industry overall, we cannot predict what impact any enacted reform proposals could have on our results of operations, liquidity, financial condition, financial strength, and debt ratings. For example, if the existing U.S. federal corporate income tax rate is reduced from its current 35%, any deferred tax assets would be reduced and we would likely be required to recognize a reduction of a previously-recognized federal tax benefit in the period when enacted. This and other potential tax rule changes may increase or decrease our actual tax expense and could materially and adversely affect our results of operations. If the corporate tax rate is reduced to between 15% and 20%, we would be required to record a non-cash write off of deferred tax assets to income of approximately $36 million to $49 million.

Recent tax reform proposals have included border adjustment provisions that could tax imports of products and services from foreign states. Some proposals call for significant tariffs. We have agreements for products and services with foreign domiciled companies, such as information technology services. In addition, risk transfer may or may not be included in the definition of products and services; therefore, our reinsurance treaties, many of which are with non-U.S. reinsurance companies, may be impacted by any new proposals. If new taxes are imposed on these products and services, it is possible that our expenses for these items could increase, perhaps significantly. We cannot predict the impact such proposals could have on our products and services supplier relationships, results of operations, liquidity, financial condition, financial strength, and debt ratings if enacted.

Changes in tax legislation initiatives could adversely affect our investments results.

Amendments to the tax laws and regulations of U.S. federal, state, and local governments may adversely impact us. Our investment portfolio has benefited from tax exemptions and certain other tax laws, including, but not limited to, those governing dividends received deductions and tax-advantaged municipal bond interest. Future federal and/or state tax legislation could be enacted to lessen or eliminate some or all of these favorable tax advantages. This could negatively impact the value of our investment portfolio and, in turn, materially and adversely impact our results of operations.

If the recent renewed debate about revamping the current U.S. federal tax code results in enacted changes, it is possible that some changes may be beneficial to the insurance industry overall. We, however, cannot predict what impact such enacted proposals could have on our results of operations, liquidity, financial condition, financial strength, and debt ratings.

If we experience difficulties with outsourcing relationships, our ability to conduct our business might be negatively impacted.
We outsource certain business and administrative functions to third parties for efficiencies and cost savings, and may do so increasingly in the future. If we fail to develop and implement our outsourcing strategies or our third-party providers fail to perform as anticipated, we may experience operational difficulties, increased costs, and a loss of business that may have a material adverse effect on our results of operations or financial condition. Currently, we have agreements with multiple consulting, information technology, and service providers for supplemental staffing services. Collectively, these providers supply approximately 54% of our skilled technology capacity and are principally based in the U.S., although we do contract with some service providers who are based, or utilize resources, outside of the U.S. As mentioned above, the availability and cost of these services may be impacted by potential tax reform proposals.

Other Potential Impacts of the Presidential Election and the Republican Majority Congress

We are subject to the risk that legislation will be passed that significantly changes insurance regulation and adversely impacts our business, financial condition, and/or the results of operations.
In 2009, the Dodd-Frank Act was enacted to address corporate governance and control issues identified in the financial markets crises in 2008 and 2009 and issues identified in the operations of non-insurance subsidiaries of American International Group, Inc. The Dodd-Frank Act created the FIO as part of the U.S. Department of Treasury to advise the federal government on insurance issues. The Dodd-Frank Act also requires the Federal Reserve, through the Financial Services Oversight Council (“FSOC”), to supervise financial services firms designated as systemically important financial institutions ("SIFI"). The FSOC has not designated us as a SIFI. The Dodd-Frank Act also included a number of corporate governance reforms for publicly traded companies, including proxy access, say-on-pay, and other compensation and governance issues. Critics of the Dodd-Frank Act are proposing various reforms to the act, and it is possible that some provisions of the law may be modified to lessen regulatory burdens.

In general, the Trump Administration and the Republican Majority in Congress favor less federal involvement in insurance. It is possible, however, that there may be legislative proposals in Congress that could result in the federal government directly regulating the business of insurance. President Trump and the Republican Majority in Congress favor the repeal of the Affordable Care Act ("ACA"). Repeal of the law raises some legal and practical challenges. Some reform proposals include a provision to permit sales of insurance across state lines, which under current federal law cannot be sold across state lines without the approval of the respective state insurance regulators. As part of some ACA reform proposals, there are calls for the elimination of the anti-trust exemptions for health insurers under the McCarran-Ferguson Act. While we are not a health insurer, we and the property and casualty industry operate under anti-trust exemptions that permit the aggregation of claims and other data necessary under the law of large numbers to price insurance. If similar proposals related to the property and casualty industry were made and enacted, we would have to seek a business practices exemption from the Department of Justice to share information with other insurers. We cannot predict the impact such proposals, if enacted, could have on our product and services supplier relationships, results of operations, liquidity, financial condition, financial strength, and debt ratings.

There also are legislative and regulatory proposals in various states that seek to limit the ability of insurers to assess insurance risk. From time-to-time, proposals in various states seek to limit the ability of insurers to use certain factors or predictive measures in the underwriting of property and casualty risks. Among the proposed legislation and regulation have been limits on the use of insurance scores and marketplace considerations. These proposals, if enacted, could impact underwriting pricing and results.

We cannot predict what federal and state rules or legislation will be proposed and adopted, or what impact, if any, such proposals or the cost of compliance with such proposals, could have on our results of operations, liquidity, financial condition, financial strength, and debt ratings if enacted.

Deterioration in the public debt and equity markets, the private investment marketplace, uncertainty regarding political developments and the economy could lead to investment losses, which may adversely affect our results of operations, financial condition, liquidity, and debt ratings.
Like most property and casualty insurance companies, we depend on income from our investment portfolio for a significant portion of our revenue and earnings. Our investment portfolio is exposed to significant financial and capital market risks, both in the U.S. and abroad, and volatile changes in general market or economic conditions could lead to a decline in the market value of our portfolio as well as the performance of the underlying collateral of our structured securities. Concerns over weak economic growth globally, elevated unemployment, volatile energy and commodity prices, and geopolitical issues, among other factors, contribute to increased volatility in the financial markets, increased potential for credit downgrades, and decreased liquidity in certain investment segments. In addition, President Donald J. Trump has proposed significant changes in United

States domestic and foreign policy. The uncertainty regarding these proposed changes, and whether they will be implemented, may elevate the volatility of the financial markets and adversely impact our investment portfolio.

Our notes payable and line of credit are subject to certain debt-to-capitalization restrictions and net worth covenants, which could be impacted by a significant decline in investment value. Further OTTI charges could be necessary if there is a significant future decline in investment values. Depending on market conditions going forward, and in the event of extreme prolonged market events, such as the global credit crisis, we could incur additional realized and unrealized losses in future periods, which could have an adverse impact on our results of operations, financial condition, debt and financial strength ratings, and our ability to access capital markets as a result of realized losses, impairments, and changes in unrealized positions.

For more information regarding market interest rate, credit, and equity price risk, see Item 7A. “Quantitative and Qualitative Disclosures About Market Risk.” of this Form 10-K.

Other Evolving Legislation

We face risks regarding our flood business because of uncertainties regarding the NFIP.
We are the sixth largest insurance group participating in the WYO arrangement of the NFIP, which is managed by the Mitigation Division of the Federal Emergency Management Agency (“FEMA”) in the U.S. Department of Homeland Security. For WYO participation, we receive an expense allowance for policies written and a servicing fee for claims administered. Under the program, all losses are 100% reinsured by the Federal Government. Currently, the expense allowance is 30.9% of DPW. The servicing fee is the combination of 0.9% of DPW and 1.5% of incurred losses.

As a WYO carrier, we are required to follow certain NFIP procedures when administering flood policies and claims. Some of these requirements may differ from our normal business practices and may present a reputational risk to our brand. Insurance companies are regulated by states and the NFIP requires WYO carriers to be licensed in the states in which they operate. The NFIP, however, is a federal program and WYO carriers are fiscal agents of the U.S. Government and must follow the directives of the NFIP. Consequently, we have the risk that directives of the NFIP and a state regulator on the same issue may conflict.

There has been significant public policy and political debate regarding the NFIP and its outstanding debt, including the obtainment of reinsurance coverage for NFIP losses. In 2016, FEMA secured its first placement of reinsurance for the NFIP. In January 2017, FEMA expanded its September 2016 placement and transferred $1 billion of the NFIP's financial risk to reinsurers through January 1, 2018. In addition, there are several legislative proposals in Congress regarding NFIP reauthorization. The NFIP statute will expire on September 30, 2017, unless reauthorized by Congress. While it is possible that the NFIP program will be reauthorized with limited changes to the underlying structure, there is substantial uncertainty about the future of the program given the changing political environment. Our flood business could be impacted by: (i) any mandate for primary insurance carriers to provide flood insurance; or (ii) private writers becoming more prevalent in the marketplace. The uncertainty created by the public policy debate and politics of flood insurance reform make it difficult for us to predict the future of the NFIP and our continued participation in the program.

We are subject to attempted cyber-attacks and other cybersecurity risks.
Our business heavily relies on various information technology and application systems that are connected to, or may be accessed from, the Internet and may be impacted by a malicious cyber-attack. Our systems also contain confidential and proprietary information regarding our operations, our employees, our agents, and our customers and their employees and property, including personally identifiable information. We have developed and invested, and expect to continue to do both, in a variety of controls to prevent, detect, and appropriately react to such cyber-attacks,

including frequently testing our systems' security and access controls. Cyber-attacks continue to become more complex and broad ranging and our internal controls provide only a reasonable, not absolute, assurance that we will be able to protect ourselves from significant cyber-attack incidents. By outsourcing certain business and administrative functions to third parties, we may be exposed to enhanced risk of data security breaches. Any breach of data security could damage our reputation and/or result in monetary damages, which, in turn, could have a material adverse effect on our results of operations, liquidity, financial condition, financial strength, and debt ratings. Although we have not experienced a material cyber-attack, it is possible that might occur. We have insurance coverage for certain cybersecurity risks, including privacy breach incidents, that provides protection up to $20 million above a deductible of $250,000.

Given the increased number of identity thefts from cyber-attacks, federal and state policymakers have proposed, and will likely continue to propose, increased regulation of the protection of personally identifiable information and the steps to be followed after a related cybersecurity breach. Compliance with these regulations and efforts to address continuingly developing cybersecurity risks may result in a material adverse effect on our results of operations, liquidity, financial condition, financial strength, and debt ratings.

Risks Related to our Insurance Segments

Our loss and loss expense reserves may not be adequate to cover actual losses and expenses.
We are required to maintain loss and loss expense reserves for our estimated liability for losses and loss expenses associated with reported and unreported insurance claims. Our estimates of reserve amounts are based on facts and circumstances that we know, including our expectations of the ultimate settlement and claim administration expenses, including inflationary trends particularly regarding medical costs, predictions of future events, trends in claims severity and frequency, and other subjective factors relating to our insurance policies in force. There is no method for precisely estimating the ultimate liability for settlement of claims. We cannot be certain that the reserves we establish are adequate or will be adequate in the future. From time-to-time, we increase reserves if they are inadequate or reduce them if they are redundant. An increase in reserves: (i) reduces net income and stockholders' equity for the period in which the reserves are increased; and (ii) could have a material adverse effect on our results of operations, liquidity, financial condition, financial strength, and debt ratings.

We are subject to losses from catastrophic events.
Our results are subject to losses from natural and man-made catastrophes, including, but not limited to: hurricanes, tornadoes, windstorms, earthquakes, hail, terrorism, explosions, severe winter weather, floods, and fires, some of which may be related to climate changes. The frequency and severity of these catastrophes are inherently unpredictable. One year may be relatively free of such events while another may have multiple events. For further discussion regarding man-made catastrophes that relate to terrorism, see the risk factor directly below regarding the potential for significant losses from acts of terrorism.

There is widespread interest among scientists, legislators, regulators, and the public regarding the effect that greenhouse gas emissions may have on our environment, including climate change. If greenhouse gasses continue to impact our climate, it is possible that more devastating catastrophic events could occur.

The magnitude of catastrophe losses is determined by the severity of the event and the total amount of insured exposures in the area affected by the event as determined by ISO's Property Claim Services unit. Most of the risks underwritten by our insurance segments are concentrated geographically in the Eastern and Midwestern regions of the country. In 2016, approximately 20% of NPW were related to insurance policies written in New Jersey. Catastrophes in the Eastern and Midwestern regions of the United States could adversely impact our financial results, as was the case in 2010, 2011, and 2012.

Although catastrophes can cause losses in a variety of property and casualty insurance lines, most of our historical catastrophe-related claims have been from commercial property and homeowners coverages. In an effort to limit our exposure to catastrophe losses, we purchase catastrophe reinsurance. Catastrophe reinsurance could prove inadequate if: (i) the various modeling software programs that we use to analyze the Insurance Subsidiaries' risk result in an inadequate purchase of reinsurance by us; (ii) a major catastrophe loss exceeds the reinsurance limit or the reinsurers' financial capacity; or (iii) the frequency of catastrophe losses results in our Insurance Subsidiaries exceeding the aggregate limits provided by the catastrophe reinsurance treaty. Even after considering our reinsurance protection, our exposure to catastrophe risks could have a material adverse effect on our results of operations, liquidity, financial condition, financial strength, and debt ratings.

We are subject to potentially significant losses from acts of terrorism.
As a Standard Commercial Lines and E&S Lines writer, we are required to participate in TRIPRA, which was extended by Congress to December 31, 2020. TRIPRA requires private insurers and the United States government to share the risk of loss on future acts of terrorism certified by the U.S. Secretary of the Treasury. Under TRIPRA, insureds with non-workers compensation commercial policies have the option to accept or decline our terrorism coverage or negotiate with us for other terms. In 2016, 89% of our Standard Commercial Lines non-workers compensation policyholders purchased terrorism coverage that included nuclear, biological, chemical, and radioactive ("NBCR") events. Terrorism coverage is mandatory for all primary workers compensation policies, so the TRIPRA back-stop applies to these policies. A risk exists that, if the U.S. Secretary of Treasury does not certify certain future terrorist events, we would be required to pay related covered losses without TRIPRA's risk sharing benefits. Examples of this potential risk are the 2013 Boston Marathon bombing and the 2015 shootings in San Bernardino, California, neither of which were certified as terrorism events.

Under TRIPRA, each participating insurer is responsible for paying a deductible of specified losses before federal assistance is available. This deductible is based on a percentage of the prior year’s applicable Standard Commercial Lines and E&S Lines premiums. In 2017, our deductible is approximately $304 million. For losses above the deductible, the federal government will pay 83% of losses to an industry limit of $100 billion, and the insurer retains 17%. The federal share of losses will be reduced by 1% each year to 80% by 2020. Although TRIPRA's provisions will mitigate our loss exposure to a large-scale terrorist attack, our deductible is substantial and could have a material adverse effect on our results of operations, liquidity, financial condition, financial strength, and debt ratings.

TRIPRA rescinded all previously approved coverage exclusions for terrorism. Many of the states in which we write commercial property insurance mandate that we cover fire following an act of terrorism regardless of whether the insured specifically purchased terrorism coverage. Likewise, terrorism coverage cannot be excluded from workers compensation policies in any state in which we write.

Personal lines of business have never been covered under TRIPRA. Homeowners policies within our Standard Personal Lines exclude nuclear losses, but do not exclude biological or chemical losses.

Our ability to reduce our risk exposure depends on the availability and cost of reinsurance.
We transfer a portion of our underwriting risk exposure to reinsurance companies. Through our reinsurance arrangements, a specified portion of our losses and loss expenses are assumed by the reinsurer in exchange for a specified portion of premiums. The availability, amount, and cost of reinsurance depend on market conditions, which may vary significantly. Most of our reinsurance contracts renew annually and may be impacted by the market conditions at the time of the renewal that are unrelated to our specific book of business or experience. Any decrease in the amount of our reinsurance will increase our risk of loss. Any increase in the cost of reinsurance that cannot be included in renewal price increases will reduce our earnings. Accordingly, we may be forced to incur additional expenses for reinsurance or may not be able to obtain sufficient reinsurance on acceptable terms. Either could adversely affect our ability to write future business or result in the assumption of more risk with respect to those policies we issue.

We are exposed to credit risk.
We are exposed to credit risk in several areas of our insurance segments, including from:

- Our reinsurers, who are obligated to us under our reinsurance agreements. Amounts recoverable from our reinsurers can increase quickly and significantly during periods of high catastrophe loss activity, such as in the fourth quarter of 2012 due to losses incurred from Superstorm Sandy, and thus our credit risk to our reinsurers can increase significantly and will fluctuate over time. The relatively small size of the reinsurance market and our objective to maintain an average weighted rating of "A" by A.M. Best on our current reinsurance programs constrains our ability to diversify this credit risk. However, some of our reinsurance credit risk is collateralized.

- Certain life insurance companies that are obligated to our customers, as we have purchased annuities from them under structured settlement agreements.

- Some of our distribution partners, who collect premiums from our customers and are required to remit the collected premium to us.

- Some of our customers, who are responsible for payment of premiums and/or deductibles directly to us.

- The invested assets in our defined benefit plan, which partially serve to fund our liability associated with this plan. To the extent that credit risk adversely impacts the valuation and performance of the invested assets within our defined benefit plan, the funded status of the defined benefit plan could be adversely impacted and, as result, could increase the cost of the plan to us.

Our exposure to credit risk could have a material adverse effect on our results of operations, liquidity, financial condition, financial strength, and debt ratings.

Difficult conditions in global capital markets and the economy may adversely affect our revenue and profitability and harm our business, and these conditions may not improve in the near future.
General economic conditions in the United States and throughout the world and volatility in financial and insurance markets may materially affect our results of operations. Factors such as business and consumer confidence, unemployment levels, consumer spending, business investment, government spending, the volatility and strength of the capital markets, and inflation all affect the business and economic environment and, indirectly, the amount and profitability of our business. During 2016, 34% of DPW in our Standard Commercial Lines business were based on payroll/sales of our underlying customers. An

economic downturn in which our customers decline in revenue or employee count can adversely affect our audit and endorsement premium in our Standard Commercial Lines.

Unfavorable economic developments could adversely affect our earnings if our customers have less need for insurance coverage, cancel existing insurance policies, modify coverage, or choose not to renew with us. Challenging economic conditions may impair the ability of our customers to pay premiums as they come due. Adverse economic conditions may have a material effect on our results of operations, liquidity, financial condition, financial strength, and debt ratings.

A downgrade or a potential downgrade in our financial strength or credit ratings could result in a loss of business and could have a material adverse effect on our financial condition and results of operations.
A significant financial strength rating downgrade, particularly from A.M. Best, would affect our ability to write new or renewal business with customers, some of whom are required under various third party agreements to maintain insurance with a carrier that maintains a specified minimum rating. In addition, our $30 million line of credit ("Line of Credit") requires our Insurance Subsidiaries to maintain an A.M. Best rating of at least “A-” (one level below our current rating) and a default could lead to acceleration of any outstanding principal. Such an event could trigger default provisions under certain of our other debt instruments and negatively impact our ability to borrow in the future. As a result, any significant downgrade in our financial strength ratings could have a material adverse effect on our results of operations, liquidity, financial condition, financial strength, and debt ratings. Refer to Item 1. "Business" for our current financial strength ratings.

Nationally recognized statistical rating organizations ("NRSROs") also rate our long-term debt creditworthiness. Credit ratings indicate the ability of debt issuers to meet debt obligations in a timely manner and are important factors in our overall funding profile and ability to access certain types of liquidity. Our current senior credit ratings are as follows:

NRSRO	Credit Rating	Long Term Credit Outlook
A.M. Best	bbb+	Stable
S&P	BBB	Stable
Moody’s	Baa2	Stable
Fitch	BBB+	Stable

Downgrades in our credit ratings could have a material adverse effect on our financial condition and results of operations in many ways, including making it more expensive for us to access capital markets. We cannot predict possible actions NRSROs may take regarding our ratings that could adversely affect our business or the possible actions we may take in response to any such actions.

We have many competitors and potential competitors.
Demand for insurance is influenced by prevailing general economic conditions. The supply of insurance is related to prevailing prices, the levels of insured losses and the levels of industry capital which, in turn, may fluctuate in response to changes in rates of return on investments being earned in the insurance industry. In addition, pricing is influenced by the operating performance of insurers, as increased pricing may be necessary to meet return on equity objectives. As a result, the insurance industry historically has had cycles characterized by periods of intense price competition due to excessive underwriting capacity and periods when shortages of capacity and poor insurer operating performance drove favorable premium levels. If competitors price business below technical levels, we might reduce our profit margin to retain our best business.

Pricing and loss trends impact our profitability. For example, assuming retention and all other factors remain constant:

- A pure price decline of approximately 1% would increase our statutory combined ratio by approximately 0.75 points;
- A 3% increase in our expected claim costs for the year would cause our loss and loss expense ratio to increase by approximately 1.75 points; and
- A combination of the two could raise the combined ratio by approximately 2.5 points.

We compete with regional, national, and direct-writer property and casualty insurance companies for customers, distribution partners, and employees. Some competitors are public companies and some are mutual companies. Many competitors are larger and may have lower operating costs and/or lower cost of capital. They may have the ability to absorb greater risk while maintaining their financial strength ratings. Consequently, some competitors may be able to price their products more competitively. These competitive pressures could result in increased pricing pressures on a number of our products and services, particularly as competitors seek to win market share, and may impair our ability to maintain or increase our profitability. Because of its relatively low cost of entry, the Internet has emerged as a significant place of new competition, both from existing competitors and new competitors. New competitors emerging under this digital platform include, but are not limited to, Lemonade, Attune, and Coverwallet. Additionally, reinsurers have entered certain primary property casualty insurance markets to diversify their operations and compete with us. Further new competition could cause changes in the supply or demand for insurance and adversely affect our business.

We have less loss experience data than our larger competitors.

We believe that insurers are competing and will continue to compete on their ability to use reliable data about their customers and loss experience in complex analytics and predictive models to assess the profitability of risks, as well as the potential for adverse claim development, recovery opportunities, fraudulent activities, and customer buying habits. With the consistent expansion of computing power and the decline in its cost, we believe that data and analytics use will continue to increase and become more complex and accurate. As a regional insurance group, the loss experience from our insurance operations is not large enough in all circumstances to analyze and project our future costs. In addition, we have more limited experience data related to our E&S business, which we purchased in 2011. We use data from ISO, AAIS, and NCCI to obtain industry loss experience to supplement our own data. While statistically relevant, that data is not specific to the performance of risks we have underwritten. Larger competitors, particularly national carriers, have a significantly larger volume of data regarding the performance of risks that they have underwritten. The analytics of their loss experience data may be more predictive of profitability of their risks than our analysis using, in part, general industry loss experience. For the same reason, should Congress repeal the McCarran-Ferguson Act, which provides an anti-trust exemption for the aggregation of loss data, and we are unable to access data from ISO, AAIS, and NCCI, we will be at a competitive disadvantage to larger insurers who have more loss experience data on their own customers and may not need aggregated industry loss data.

We depend on distribution partners.

We market and sell our insurance products through distribution partners who are not our employees. We believe that these partners will remain a significant force in overall insurance industry premium production because they can provide customers with a wider choice of insurance products than if they represented only one insurer. That, however, creates competition in our distribution channel and we must market our products and services to our distribution partners before they sell them to our mutual customers. Additionally, there has been a trend towards increased levels of consolidation of these distribution partners in the marketplace, which increases competition among fewer distributors. Our Standard Personal Lines production is further limited by the fact that independent retail insurance agencies only write approximately 35% of this business in the United States. Our financial condition and results of operations are tied to the successful marketing and sales efforts of our products by our distribution partners. In addition, under insurance laws and regulations and common law, we potentially can be held liable for business practices or actions taken by our distribution partners.

We are heavily regulated and changes in regulation may reduce our profitability, increase our capital requirements, and/or limit our growth.

Our Insurance Subsidiaries are heavily regulated by extensive laws and regulations that may change on short notice. The primary public policy behind insurance regulation is the protection of policyholders and claimants over all other constituencies, including shareholders. Historically by virtue of the McCarran-Ferguson Act, our Insurance

Subsidiaries are primarily regulated by the states in which they are domiciled and licensed. State insurance regulation is generally uniform throughout the U.S. by virtue of similar laws and regulations required by the NAIC to accredit state insurance departments so their examinations can be given full faith and credit by other state regulators. Despite their general similarity, various provisions of these laws and regulations vary from state to state. At any given time, there may be various legislative and regulatory proposals in each of the 50 states and District of Columbia that, if enacted, may affect our Insurance Subsidiaries.

The broad regulatory, administrative, and supervisory powers of the various state departments of insurance include the following:

- Related to our financial condition, review and approval of such matters as minimum capital and surplus requirements, standards of solvency, security deposits, methods of accounting, form and content of statutory financial statements, reserves for unpaid losses and loss adjustment expenses, reinsurance, payment of dividends and other distributions to shareholders, periodic financial examinations, and annual and other report filings.

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- Related to our general business, review and approval of such matters as certificates of authority and other insurance company licenses, licensing and compensation of distribution partners, premium rates (which may not be excessive, inadequate, or unfairly discriminatory), policy forms, policy terminations, reporting of statistical information regarding our premiums and losses, periodic market conduct examinations, unfair trade practices, participation in mandatory shared market mechanisms, such as assigned risk pools and reinsurance pools, participation in mandatory state guaranty funds, and mandated continuing workers compensation coverage post-termination of employment.

- Related to our ownership of the Insurance Subsidiaries, we are required to register as an insurance holding company system in each state where an insurance subsidiary is domiciled and report information concerning all of our operations that may materially affect the operations, management, or financial condition of the insurers. As an insurance holding company, the appropriate state regulatory authority may: (i) examine our Insurance Subsidiaries or us at any time; (ii) require disclosure or prior approval of material transactions of any of the Insurance Subsidiaries with its affiliates; and (iii) require prior approval or notice of certain transactions, such as payment of dividends or distributions to us.

Although Congress has largely delegated insurance regulation to the various states by virtue of the McCarran-Ferguson Act, we are also subject to federal legislation and administrative policies, such as disclosure under the securities laws, including the Sarbanes-Oxley Act and the Dodd-Frank Act, TRIPRA, OFAC, and various privacy laws, including the Gramm-Leach-Bliley Act, the Fair Credit Reporting Act, the Drivers Privacy Protection Act, the Health Insurance Portability and Accountability Act, and the policies of the Federal Trade Commission. As a result of issuing workers compensation policies, we are subject to Mandatory Medicare Secondary Payer Reporting under the Medicare, Medicaid, and SCHIP Extension Act of 2007.

The European Union enacted Solvency II, which was implemented in 2016 and sets out new requirements for capital adequacy and risk management for insurers operating in Europe. The strengthened regime is intended to reduce the possibility of consumer loss or market disruption in insurance. In addition, in 2014, the International Association of Insurance Supervisors proposed Basic Capital Standards for Global Systemically Important Insurers as well as a uniform capital framework for internationally active insurers. Although Solvency II does not govern domestic American insurers, and we do not have international operations, we believe that development of global capital standards will influence the development of similar standards by domestic regulators. The NAIC has recently adopted ORSA, which requires insurers to maintain a framework for identifying, assessing, monitoring, managing, and reporting on the “material and relevant risks” associated with the insurer's (or insurance group's) current and future business plans. ORSA, which has been adopted by the state insurance regulators of our Insurance Subsidiaries, requires companies to file an internal assessment of their solvency with insurance regulators annually. Although no specific capital adequacy standard is currently articulated in ORSA, it is possible that such a standard will be developed over time and may increase insurers' minimum capital requirements, which could adversely impact our growth and return on equity.

We are subject to non-governmental regulators, such as the NASDAQ Stock Market and the New York Stock Exchange where we list our securities. Many of these regulators, to some degree, overlap with each other on various matters. They have different regulations on the same legal issues that are subject to their individual interpretative discretion. Consequently, we have the risk that one regulator’s position may conflict with another regulator’s position on the same issue. As compliance is generally reviewed in hindsight, we are subject to the risk that interpretations will change over time.

We believe we are in compliance with all laws and regulations that have a material effect on our results of operations, but the cost of complying with various, potentially conflicting laws and regulations, and changes in those laws and regulations could have a material adverse effect on our results of operations, liquidity, financial condition, financial strength, and debt ratings.

Class action litigation could affect our business practices and financial results.
Our industry has been the target of class action litigation, including the following areas:

- After-market parts;
- Urban homeowner insurance underwriting practices, including those related to architectural or structural features and attempts by federal regulators to expand the Federal Housing Administration's guidelines to determine unfair discrimination;
- Credit scoring and predictive modeling pricing;
- Cybersecurity breaches;
- Investment disclosure;
- Managed care practices;
- Timing and discounting of personal injury protection claims payments;

- Direct repair shop utilization practices;
- Flood insurance claim practices; and
- Shareholder class action suits.

If we were to be named in such class action litigation, we could suffer reputational harm with purchasers of insurance and have increased litigation expenses that could have a materially adverse effect on our operations or results.

Risks Related to Our Investment Segment

We are exposed to interest rate risk in our investment portfolio.
We are exposed to interest rate risk primarily related to the market price, and cash flow variability, associated with changes in interest rates. A rise in interest rates may decrease the fair value of our existing fixed income investments and declines in interest rates may result in an increase in the fair value of our existing fixed income investments. Our fixed income investment portfolio, which currently has an effective duration of 3.8 years excluding short-term investments, contains interest rate sensitive instruments that may be adversely affected by changes in interest rates resulting from governmental monetary policies, domestic and international economic and political conditions, and other factors beyond our control. A rise in interest rates would decrease the net unrealized gain position of the investment portfolio, partially offset by our ability to earn higher rates of return on funds reinvested in new investments. Conversely, a decline in interest rates would increase the net unrealized gain position of the investment portfolio, partially offset by lower rates of return on new and reinvested cash in the portfolio. Changes in interest rates have an effect on the calculated duration of certain securities in the portfolio. We seek to mitigate our interest rate risk associated with holding fixed income investments by monitoring and maintaining the average duration of our portfolio with a view toward achieving an adequate after-tax return without subjecting the portfolio to an unreasonable level of interest rate risk. This may include investing in floating rate securities and other shorter duration securities that exhibit low effective duration and interest rate risk, but expose the portfolio to other risks, including the risk of a change in credit spreads, liquidity spreads, and other factors that may adversely impact the value of the portfolio. Although we take measures to manage the economic risks of investing in a changing interest rate environment, we may not be able to mitigate the interest rate risk of our assets relative to our liabilities, particularly our loss reserves. In addition, our pension and post-retirement benefit obligations include a discount rate assumption, which is an important element of expense and/or liability measurement. Changes in the discount rate assumption could materially impact our pension and post-retirement life valuation.

We are exposed to credit risk in our investment portfolio.
The value of our investment portfolio is subject to credit risk from the issuers and/or guarantors of the securities in the portfolio, other counterparties in certain transactions and, for certain securities, insurers that guarantee specific issuer's obligations. Defaults by the issuer or an issuer's guarantor, insurer, or other counterparties regarding any of our investments, could reduce our net investment income and net realized investment gains or result in investment losses. We are subject to the risk that the issuers, or guarantors, of fixed income securities we own may default on principal and interest payments due under the terms of the securities. At December 31, 2016, our fixed income securities portfolio represented approximately
92% of our total invested assets, of which approximately 97% were investment grade and 3% were below investment grade rated, resulting in an average credit rating of AA- of the fixed income securities portfolio. Over time, our exposure to below investment grade securities and other credit sensitive risk assets may fluctuate as we continue to diversify the portfolio and take advantage of opportunities to add or reduce risk commensurate with our risk-taking capacity and market conditions. The occurrence of a major economic downturn, acts of corporate malfeasance, widening credit spreads, budgetary deficits, municipal bankruptcies spurred by, among other things, pension funding issues, or other events that adversely affect the issuers or guarantors of these securities could cause the value of our fixed income securities portfolio and our net income to decline and the default rate of our fixed income securities

portfolio to increase.

With economic uncertainty, credit quality of issuers or guarantors could be adversely affected and a ratings downgrade of the issuers or guarantors of the securities in our portfolio could cause the value of our fixed income securities portfolio and our net income to decrease. As our stockholders' equity is leveraged at 3.5:1 to our investment portfolio, a reduction in the value of our investment portfolio could have a material adverse effect on our business, results of operations, financial condition, and debt ratings. Levels of write-downs are impacted by our assessment of the impairment, including a review of the underlying collateral of structured securities, and our intent and ability to hold securities that have declined in value until recovery. If we reposition or realign portions of the portfolio so that we determine not to hold certain securities in an unrealized loss position to recovery, we will incur an OTTI charge. For further information regarding credit and interest rate risk, see Item 7A. “Quantitative and Qualitative Disclosures About Market Risk.” of this Form 10-K.

Our statutory surplus may be materially affected by rating downgrades on investments held in our portfolio.
We are exposed to significant financial and capital markets risks, primarily relating to interest rates, credit spreads, equity prices, and the change in market value of our alternative investment portfolio. A decline in both income and our investment

portfolio asset values could occur as a result of, among other things, a decrease in market liquidity, fluctuations in interest rates, decreased dividend payment rates, negative market perception of credit risk with respect to types of securities in our portfolio, a decline in the performance of the underlying collateral of our structured securities, reduced returns on our alternative investment portfolio, or general market conditions. A global decline in asset values will be more amplified in our financial condition, as our statutory surplus is leveraged at a 3.4:1 ratio to our investment portfolio.

With economic uncertainty, the credit quality and ratings of securities in our portfolio could be adversely affected. The NAIC could potentially apply a more adverse class code on a security than was originally assigned, which could adversely affect statutory surplus because securities with NAIC class codes three through six require securities to be marked-to-market for statutory accounting purposes, as compared to securities with NAIC class codes of one or two that are carried at amortized cost.

There can be no assurance that the actions of the U.S. Government, Federal Reserve, and other governmental and regulatory bodies will achieve their intended effect.
Over the past several years, the Federal Reserve has taken a number of actions related to interest rates and purchasing of financial instruments intended to spur economic recovery. The Federal Reserve's policy of quantitative easing and low interest rates since the financial crisis of 2008 have had an adverse effect on our investment income, as higher yielding securities mature and we reinvest the proceeds at lower yields. In December 2015 and again in December 2016, the Federal Reserve increased the Federal Fund Rate by 25 basis points each. It is unclear whether the Federal Reserve's economic stimulus actions will produce the desired results. The impact of these actions could materially and adversely affect our financial condition and the trading price of our common stock. In the event of future material deterioration in business conditions, we may need to raise additional capital or consider other transactions to manage our capital position.

In addition, our investment activities are subject to extensive laws and regulations that are administered and enforced by a number of different governmental authorities and non-governmental self-regulatory agencies. In light of the current economic conditions, some of these authorities have implemented, or may in the future implement, new or enhanced regulatory requirements, such as those included in the Dodd-Frank Act, intended to restore confidence in financial institutions and reduce the likelihood of similar economic events in the future. These authorities may seek to exercise their supervisory and enforcement authority in new or more robust ways. Such events could affect the way we conduct our business and manage our capital, and may require us to satisfy increased capital requirements. These developments, if they occurred, could have a material adverse effect on our results of operations, liquidity, financial condition, financial strength, and debt ratings.

We are subject to the types of risks inherent in investing in private limited partnerships.
Our other investments include investments in private limited partnerships that invest in various strategies, such as private equity, private credit, and real assets. Since these partnerships’ underlying investments consist primarily of assets or liabilities for which there are no quoted prices in active markets for the same or similar assets, the valuation of interests in these partnerships is subject to a higher level of subjectivity and unobservable inputs than substantially all of our other investments and as such, is subject to greater scrutiny and reconsideration from one reporting period to the next. As these investments are recorded under the equity method of accounting, any decreases in the valuation of these investments would negatively impact our results of operations. We currently expect to increase our allocation to these investments, which may result in additional variability in our net investment income.

We value our investments using methodologies, estimations, and assumptions that are subject to differing interpretations. Changes in these interpretations could result in fluctuations in the valuations of our investments that may adversely affect our results of operations or financial condition.

Fixed income, equity, and short-term investments, which are reported at fair value on our Consolidated Balance Sheet, represented the majority of our total cash and invested assets as of December 31, 2016. As required under accounting rules, we have categorized these securities into a three-level hierarchy, based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1). The next priority is to quoted prices in markets that are not active or inputs that are observable either directly or indirectly, including quoted prices for similar assets or liabilities or in markets that are not active and other inputs that can be derived principally from, or corroborated by, observable market data for substantially the full term of the assets or liabilities (Level 2). The lowest priority in the fair value hierarchy is to unobservable inputs supported by little or no market activity and that reflect the reporting entity’s own assumptions about the exit price, including assumptions that market participants would use in pricing the asset or liability (Level 3).

An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. We generally use an independent pricing service and broker quotes to price our investment securities. At December 31, 2016, approximately 7% and 92% of these securities represented Level 1 and Level 2, respectively. However, prices provided by independent pricing services and brokers can vary widely even for the same security. Rapidly changing and unprecedented credit and equity market conditions could materially impact the valuation of securities as reported within our consolidated financial statements ("Financial Statements") and the period-to-period changes in value could vary significantly. Decreases in value may result in an increase in non-cash OTTI charges, which could have a material adverse effect on our results of operations, liquidity, financial condition, financial strength, and debt ratings.

The determination of the amount of impairments taken on our investments is highly subjective and could materially impact our results of operations or our financial position.
The determination of the amount of impairments taken on our investments is based on our periodic evaluation and assessment of our investments and known and inherent risks associated with the various asset classes. Such evaluations and assessments are revised as conditions change and new information becomes available. Management updates its evaluations regularly and reflects changes in impairments as such evaluations are revised. There can be no assurance that management has accurately assessed the level of impairments taken as reflected in our Financial Statements. Furthermore, additional impairments may need to be taken in the future. It is possible that interest rates, which are at historic lows, will increase which will result in a reduction in net unrealized gains and may result in net unrealized losses associated with declines in value strictly related to such interest rate movements. It is possible that this could result in realized losses if we sell such securities or possibly more OTTI if we determine we do not have the ability and intent to hold those securities until they recover in value. In addition, we recently hired several new investment managers and expect them to take a more active approach to managing our fixed income securities portfolio. As a result, we expect our OTTI to increase in coming periods based on an increase in securities that we may intend to sell despite being in an unrealized loss position. Historical trends may not be indicative of future impairments. For further information regarding our evaluation and considerations for determining whether a security is other-than-temporarily impaired, please refer to "Critical Accounting Policies and Estimates" in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations." of this Form 10-K.

Risks Related to Our Corporate Structure and Governance

We are a holding company and our ability to declare dividends to our shareholders, pay indebtedness, and enter into affiliate transactions may be limited because our Insurance Subsidiaries are regulated.
Restrictions on the ability of the Insurance Subsidiaries to pay dividends, make loans or advances to us, or enter into transactions with affiliates may materially affect our ability to pay dividends on our common stock or repay our indebtedness.

As of December 31, 2016, the Parent had retained earnings of $1.5 billion. Of this amount, $1.4 billion was related to investments in our Insurance Subsidiaries. The Insurance Subsidiaries have the ability to provide for $193 million in annual ordinary dividends to us in 2017 under applicable state regulation; however, as they are regulated entities, their ability to pay dividends or make loans or advances to us is subject to the approval or review of the insurance regulators in the states where they are domiciled. The standards for review of such transactions are whether: (i) the terms and charges are fair and reasonable; and (ii) after the transaction, the Insurance Subsidiary's surplus for policyholders is reasonable in relation to its outstanding liabilities and financial needs. Although dividends and loans to us from our Insurance Subsidiaries historically have been approved, we can make no assurance that future dividends and loans will be approved. For additional details regarding dividend restrictions, see Note 19. "Statutory Financial Information, Capital Requirements, and Restrictions on Dividends and Transfers of Funds" in Item 8. "Financial Statements and Supplementary Data." of this Form 10-K.

Because we are an insurance holding company and a New Jersey corporation, we may be less attractive to potential acquirers and the value of our common stock could be adversely affected.

Because we are an insurance holding company that owns insurance subsidiaries, anyone who seeks to acquire 10% or more of our stock must seek prior approval from the insurance regulators in the states in which the subsidiaries are organized and file extensive information regarding their business operations and finances.

Provisions in our Amended and Restated Certificate of Incorporation may discourage, delay, or prevent us from being acquired, including:

- Supermajority shareholder voting requirements to approve certain business combinations with interested shareholders (as defined in the Amended and Restated Certificate of Incorporation) unless certain other conditions are satisfied; and
- Supermajority shareholder voting requirements to amend the foregoing provisions in our Amended and Restated Certificate of Incorporation.

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In addition to the requirements in our Amended and Restated Certificate of Incorporation, the New Jersey Shareholders' Protection Act also prohibits us from engaging in certain business combinations with interested stockholders (as defined in the statute), in certain instances for a five-year period, and in other instances indefinitely, unless certain conditions are satisfied. These conditions may relate to, among other things, the interested stockholder's acquisition of stock, the approval of the business combination by disinterested members of our Board of Directors and disinterested stockholders, and the price and payment of the consideration proposed in the business combination. Such conditions are in addition to those requirements set forth in our Amended and Restated Certificate of Incorporation.

These provisions of our Amended and Restated Certificate of Incorporation and New Jersey law could have the effect of depriving our stockholders of an opportunity to receive a premium over our common stock's prevailing market price in the event of a hostile takeover and may adversely affect the value of our common stock.

Risks Related to Our General Operations

The failure of our risk management strategies could have a material adverse effect on our financial condition or results of operations.
As an insurance provider, it is our business to take on risk from our customers. Our long-term strategy includes the use of above average operational leverage, which can be measured as the ratio of NPW to our equity or policyholders surplus. We balance operational leverage risk with a number of risk management strategies within our insurance operations to achieve a balance of growth and profit and to reduce our exposure. These strategies include, but are not limited to, the following:

- Being disciplined in our underwriting practices;
- Being prudent in our claims management practices, establishing adequate loss and loss expense reserves, and placing appropriate reliance on our claims analytics;
- Continuing to develop and implement various underwriting tools and automated analytics to examine historical statistical data regarding our customers and their loss experience to: (i) classify such policies based on that information; (ii) apply that information to current and prospective accounts; and (iii) better predict account profitability;
- Continuing to develop our customer experience platform as we grow in our understanding of customer segmentation;
- Purchasing reinsurance and using catastrophe modeling; and
- Being prudent in our financial planning process, which supports our underwriting strategies.

We also maintain a conservative approach to our investment portfolio management and employ risk management strategies that include, but are not limited to:

- Being prudent in establishing our investment policy and appropriately diversifying our investments, which supports our liabilities and underwriting strategies;
- Using complex financial and investment models to analyze historical investment performance and predict future investment performance under a variety of scenarios using asset concentration, asset volatility, asset correlation, and systematic risk; and
- Closely monitoring investment performance, general economic and financial conditions, and other relevant factors.

All of these strategies have inherent limitations. We cannot be certain that an event or series of unanticipated events will not occur and result in losses greater than we expect and have a material adverse effect on our results of operations, liquidity, financial condition, financial strength, and debt ratings.

Operational risks, including human or systems failures, are inherent in our business.
Operational risks and losses can result from, among other things, fraud, errors, failure to document transactions properly or to obtain proper internal authorization, failure to comply with regulatory requirements, information

technology failures, or external events.

We believe that our predictive models for underwriting, claims, and catastrophe losses, as well as our business analytics and our information technology and application systems are critical to our business. We expect our information technology and application systems to remain an important part of our underwriting process and our ability to compete successfully. A major defect or failure in our internal controls or information technology and application systems could: (i) result in management distraction; (ii) harm our reputation; or (iii) increase our expenses. We believe appropriate controls and mitigation procedures are in place to prevent significant risk of a defect in our internal controls around our information technology and application systems, but internal controls provide only a reasonable, not absolute, assurance as to the absence of errors or irregularities and any ineffectiveness of such controls and procedures could have a significant and negative effect on our business.

Rapid development of new technologies may result in an unexpected impact on our business and insurance industry overall.

Development of new technologies continues to impact all aspects of business and individuals' lives at rapid speed. Often such developments are positive and gradually improve standards of living and speed of communications, and allow for the development of more efficient processes. The rapid development of new technologies, however, also presents challenges and risks. Examples of such emerging risks include, but are not limited to:

- Change in exposures and claims frequency and/or severity due to unanticipated consequences of new technologies and their use. For example, technologies have been developed and are being tested for autonomous self-driving automobiles. It is unclear and we cannot predict the corresponding severity or cost of automobile claims. It is possible that these technological developments will affect the profitability and demand for automobile insurance.
- Changes in how insurance products are marketed and purchased due to the availability of new technologies and changes in customer expectations. For example, comparative rating technologies, which are widely used in personal lines insurance, facilitate the process of efficiently generating quotes from multiple insurance companies. This technology makes differentiation other than on pricing more difficult and has increased price comparison and resulted in a higher level of quote activity with a lower percentage of quotes becoming new business written. These trends may continue to accelerate and may affect other lines of business, which could put pressure on our future profitability.
- New technologies may require the development of new insurance products without the support of sufficient historical claims data for us to continue to compete effectively for our distribution partners' business and customers.

We depend on key personnel.

To a large extent, our business' success depends on our ability to attract and retain key employees. Competition to attract and retain key personnel is intense. While we have employment agreements with certain key managers, all of our employees are at-will employees and we cannot ensure that we will be able to attract and retain key personnel. As of December 31, 2016, our workforce had an average age of approximately 47 and approximately 17% of our workforce was retirement eligible.

We are subject to a variety of modeling risks, which could have a material adverse impact on our business results.

We rely on complex financial models, such as predictive underwriting models, a claims fraud model, third party catastrophe models, an enterprise risk management capital model, and modeling tools used by our investment managers, which have been developed internally or by third parties to analyze historical loss costs and pricing, trends in claims severity and frequency, the occurrence of catastrophe losses, investment performance, and portfolio risk. Flaws in these financial models, or faulty assumptions used by these financial models, could lead to increased losses. We believe that statistical models alone do not provide a reliable method for monitoring and controlling risk. Therefore, such models are tools and do not substitute for the experience or judgment of senior management.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our main office is located in Branchville, New Jersey on a site owned by a subsidiary with approximately 114 acres and 315,000 square feet of operational space. We lease all of our other facilities. The principal office locations related to our insurance segments are described in the “Geographic Markets” section of Item 1. “Business.” of this Form 10-K. We believe our facilities provide adequate space for our present needs and that additional space, if needed, would be available on reasonable terms.

Item 3. Legal Proceedings.

In the ordinary course of conducting business, we are named as defendants in various legal proceedings. Most of these proceedings are claims litigation involving our Insurance Subsidiaries as either: (i) liability insurers defending or providing indemnity for third-party claims brought against our customers; or (ii) insurers defending first-party coverage claims brought against them. We account for such activity through the establishment of unpaid losses and loss expense reserves. We expect that any potential ultimate liability in such ordinary course claims litigation will not be material to our consolidated financial condition, results of operations, or cash flows after consideration of provisions made for potential losses and costs of defense.

From time to time, our Insurance Subsidiaries also are named as defendants in other legal actions, some of which assert claims for substantial amounts. These actions include, among others, putative class actions seeking certification of a state or national class. Such putative class actions have alleged, for example, improper reimbursement of medical providers paid under workers compensation and personal and commercial automobile insurance policies. Similarly, our Insurance Subsidiaries are also named from time-to-time in individual actions seeking extra-contractual damages, punitive damages, or penalties, some of which allege bad faith in the handling of insurance claims. We believe that we have valid defenses to these cases. We expect that any potential ultimate liability in any such lawsuit will not be material to our consolidated financial condition, after consideration of provisions made for estimated losses. Nonetheless, given the inherent unpredictability of litigation and the large or indeterminate amounts sought in certain of these actions, an adverse outcome in certain matters could possibly have a material adverse effect on our consolidated results of operations or cash flows in particular quarterly or annual periods.

As of December 31, 2016, we do not believe the Company or any of the Insurance Subsidiaries was a defendant in any legal action that could have a material adverse effect on our consolidated financial condition, results of operations, or cash flows.

PART II

Item 5. Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

(a) Market Information
Our common stock is traded on the NASDAQ Global Select Market under the symbol "SIGI." The following table sets forth the high and low sales prices, as reported on the NASDAQ Global Select Market, for our common stock for each full quarterly period within the two most recent fiscal years:

	2016		2015	
	High	Low	High	Low
First quarter	$36.92	29.27	30.10	25.49
Second quarter	38.67	33.60	29.60	26.28
Third quarter	41.30	35.90	32.50	28.10
Fourth quarter	44.00	34.95	37.91	30.36

On February 14, 2017, the closing price of our common stock as reported on the NASDAQ Global Select Market was $43.20.

(b) Holders
We had 3,374 stockholders of record as of February 14, 2017 according to the records maintained by our transfer agent.

(c) Dividends
Dividends on shares of our common stock are declared and paid at the discretion of the Board based on our results of operations, financial condition, capital requirements, contractual restrictions, and other relevant factors. On October 26, 2016, the Board of Directors approved a 7% increase in our dividend to $0.16 per share. In addition, on February 2, 2017, the Board of Directors declared a $0.16 per share quarterly cash dividend on common stock that is payable March 1, 2017, to stockholders of record as of February 15, 2017. The following table provides information on the dividends declared for each quarterly period within our two most recent fiscal years:

Dividend Per Share	2016	2015
First quarter	$0.15	0.14
Second quarter	0.15	0.14
Third quarter	0.15	0.14
Fourth quarter	0.16	0.15

Our ability to receive dividends, loans, or advances from our Insurance Subsidiaries is subject to the approval and/or review of the insurance regulators in the respective domiciliary states of our Insurance Subsidiaries. Such approval and/or review is made under the respective domiciliary states' insurance holding company acts, which generally require that any transaction between related companies be fair and equitable to the insurance company and its policyholders. Although our dividends have historically been met with regulatory approval, there is no assurance that future dividends will be approved given current market conditions. We currently expect to continue to pay quarterly cash dividends on shares of our common stock in the future. For additional information, see Note 19. "Statutory Financial Information, Capital Requirements, and Restrictions on Dividends and Transfers of Funds" in Item 8. "Financial Statements and Supplementary Data." of this Form 10-K.

(d) Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information about our common stock authorized for issuance under equity compensation plans as of December 31, 2016:

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	355,391 [1]	$ 16.87	5,277,703 [2]

[1] Weighted average remaining contractual life of options is 2.14.

[2] Includes 574,722 shares available for issuance under our Employee Stock Purchase Plan (2009); 1,867,287 shares available for issuance under the Stock Purchase Plan for Independent Insurance Agencies; and 2,835,694 shares for issuance under the Selective Insurance Group, Inc. 2014 Omnibus Stock Plan ("Stock Plan"). Future grants under the Stock Plan can be made, among other things, as stock options, restricted stock units, or restricted stock.

(e) Performance Graph

The following chart, produced by Research Data Group, Inc., depicts our performance for the period beginning December 31, 2011 and ending December 31, 2016, as measured by total stockholder return on our common stock compared with the total return of the NASDAQ Composite Index and a select group of peer companies comprised of NASDAQ-listed companies in SIC Code 6330-6339, Fire, Marine, and Casualty Insurance.

This performance graph is not incorporated into any other filing we have made with the U.S. Securities and Exchange Commission ("SEC") and will not be incorporated into any future filing we may make with the SEC unless we so specifically incorporate it by reference. This performance graph shall not be deemed to be “soliciting material” or to be “filed” with the SEC unless we specifically request so or specifically incorporate it by reference in any filing we make with the SEC.

(f) Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table provides information regarding our purchases of our common stock in the fourth quarter of 2016:

Period	Total Number of Shares Purchased[1]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Number of Shares that May Yet Be Purchased Under the Announced Programs
October 1 – 31, 2016	$ —	$ —	—	—
November 1 – 30, 2016	203	35.75	—	—
December 1 – 31, 2016	—	—	—	—
Total	$ 203	$ 35.75	—	—

[1]During the fourth quarter of 2016, 203 shares were purchased from employees in connection with the vesting of restricted stock units. These repurchases were made to satisfy tax withholding obligations with respect to those employees. These shares were not purchased as part of any publicly announced program. The shares were purchased at fair market value as defined in the Stock Plan and the Selective Insurance Group, Inc. 2005 Omnibus Stock Plan as Amended and Restated Effective as of May 1, 2010.

Item 6. Selected Financial Data.

Five-Year Financial Highlights
(All presentations are in accordance with GAAP unless noted otherwise, number of weighted average shares and dollars in thousands, except per share amounts)

	2016		2015	2014	2013	2012	
Net premiums written	$2,237,288		2,069,904	1,885,280	1,810,159	1,666,883	
Net premiums earned	2,149,572		1,989,909	1,852,609	1,736,072	1,584,119	
Net investment income earned	130,754		121,316	138,708	134,643	131,877	
Net realized (losses) gains	(4,937	)	13,171	26,599	20,732	8,988	
Total revenues	2,284,270		2,131,852	2,034,861	1,903,741	1,734,102	
Catastrophe losses	59,735		59,055	59,971	47,415	98,608	
Underwriting income (loss)	151,933		149,029	78,143	38,766	(64,007	)
Net income	158,495		165,861	141,827	106,418	37,963	
Comprehensive income	151,970		136,648	136,764	77,229	49,709	
Total assets[2]	7,355,848		6,904,433	6,574,942	6,262,585	6,789,373	
Short-term debt[2]	—		60,000	—	13,000	100,000	
Long-term debt[2]	438,667		328,192	372,689	371,829	202,544	
Stockholders’ equity	1,531,370		1,398,041	1,275,586	1,153,928	1,090,592	
Statutory premiums to surplus ratio	1.4		1.5	1.4	1.4	1.6	
GAAP combined ratio	92.9	%	92.5	95.8	97.8	104.0	
Impact of catastrophe losses on statutory combined ratio[3]	2.8	pts	3.0	3.2	2.7	6.2	
Statutory combined ratio	91.8	%	92.4	95.7	97.5	103.5	
Invested assets per dollar of stockholders' equity	$3.50		3.64	3.77	3.97	3.97	
Yield on investments, before tax	2.5	%	2.5	3.0	3.0	3.1	
Debt to capitalization ratio[2]	22.3		21.7	22.6	25.0	21.7	
Return on average equity	10.8		12.4	11.7	9.5	3.5	
Per share data:							
Net income from continuing operations[1]:							
Basic	$2.74		2.90	2.52	1.93	0.69	
Diluted	2.70		2.85	2.47	1.89	0.68	
Net income:							
Basic	$2.74		2.90	2.52	1.91	0.69	
Diluted	2.70		2.85	2.47	1.87	0.68	
Dividends to stockholders	$0.61		0.57	0.53	0.52	0.52	
Stockholders’ equity	26.42		24.37	22.54	20.63	19.77	
Price range of common stock:							
High	44.00		37.91	27.65	28.31	20.31	
Low	29.27		25.49	21.38	19.53	16.22	
Close	43.05		33.58	27.17	27.06	19.27	

Number of weighted average shares:					
Basic	57,889	57,212	56,310	55,638	54,880
Diluted	58,747	58,156	57,351	56,810	55,933

[1]In 2009, we sold our Selective HR Solutions operations.

[2] Data for 2012 through 2014 has been restated to reflect the implementation of ASU 2015-03, Interest-Imputation of Interest (Topic 835-30): Simplifying the Presentation of Debt Issue Costs, which was adopted in the fourth quarter of 2015.

[3] The impact of catastrophe losses on the 2012 statutory combined ratio including flood claims handling fees related to Superstorm Sandy was 5.8 points.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Forward-looking Statements

Certain statements in this report, including information incorporated by reference, are “forward-looking statements” as that term is defined in the Private Securities Litigation Reform Act of 1995 (“PSLRA”). The PSLRA provides a safe harbor under the Securities Act of 1933, as amended, and the Exchange Act for forward-looking statements. These statements relate to our intentions, beliefs, projections, estimations or forecasts of future events or future financial performance and involve known and unknown risks, uncertainties and other factors that may cause us or the industry’s actual results, levels of activity, or performance to be materially different from those expressed or implied by the forward-looking statements. In some cases, forward-looking statements may be identified by use of the words such as “may,” “will,” “could,” “would,” “should,” “expect,” “plan,” “anticipate,” “target,” “project,” “intend,” “believe,” “estimate,” “ “pro forma,” “seek,” “likely,” or “continue” or other comparable terminology. These statements are only predictions, and we can give no assurance that such expectations will prove to be correct. We undertake no obligation, other than as may be required under the federal securities laws, to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Factors that could cause our actual results to differ materially from those we have projected, forecasted or estimated in forward-looking statements are discussed in further detail in Item 1A. “Risk Factors.” of this Form 10-K. These risk factors may not be exhaustive. We operate in a continually changing business environment, and new risk factors emerge from time-to-time. We can neither predict such new risk factors nor can we assess the impact, if any, of such new risk factors on our businesses or the extent to which any factor or combination of factors may cause actual results to differ materially from those expressed or implied in any forward-looking statements in this report. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this report might not occur.

Introduction

We classify our business into four reportable segments, which are as follows:

- Standard Commercial Lines - comprised of insurance products and services provided in the standard marketplace to our commercial enterprises, which are typically businesses, non-profit organizations, and local government agencies.

- Standard Personal Lines - comprised of insurance products and services, including flood insurance coverage, provided primarily to individuals acquiring coverage in the standard marketplace.

- Excess and surplus ("E&S") Lines - comprised of insurance products and services provided to customers who have not obtained coverage in the standard marketplace.

- Investments - invests the premiums collected by our insurance operations, as well as amounts generated through our capital management strategies, which may include the issuance of debt and equity securities.

Our Standard Commercial and Standard Personal Lines products and services are written through our nine insurance subsidiaries, some of which write flood business through the Write Your Own ("WYO") program of the National Flood Insurance Program ("NFIP"). Our E&S Lines products and services are written through one subsidiary, Mesa Underwriters Specialty Insurance Company ("MUSIC"). This subsidiary provides us with a nationally-authorized non-admitted platform to offer insurance products and services to customers who have not obtained coverage in the standard marketplace.

Our ten insurance subsidiaries are collectively referred to as the "Insurance Subsidiaries."

The following is Management's Discussion and Analysis ("MD&A") of the consolidated results of operations and financial condition, as well as known trends and uncertainties, that may have a material impact in future periods.
In the MD&A, we will discuss and analyze the following:

- Critical Accounting Policies and Estimates;
- Financial Highlights of Results for Years Ended December 31, 2016, 2015, and 2014;
- Results of Operations and Related Information by Segment;
- Federal Income Taxes;
- Financial Condition, Liquidity, and Capital Resources;
- Off-Balance Sheet Arrangements;
- Contractual Obligations, Contingent Liabilities, and Commitments; and
- Ratings.

Critical Accounting Policies and Estimates
We have identified the policies and estimates described below as critical to our business operations and the understanding of the results of our operations. Our preparation of the Financial Statements requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our Financial Statements, and the reported amounts of revenue and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates. Those estimates that were most critical to the preparation of the Financial Statements involved the following: (i) reserves for losses and loss expenses; (ii) pension and post-retirement benefit plan actuarial assumptions; (iii) investment valuation and other-than-temporary-impairments ("OTTI"); and (iv) reinsurance.

Reserves for Losses and Loss Expenses
Significant periods of time can elapse between the occurrence of an insured loss, the reporting of the loss to the insurer, and the insurer's payment of that loss. To recognize liabilities for unpaid losses and loss expenses, insurers establish reserves as balance sheet liabilities representing an estimate of amounts needed to pay reported and unreported net losses and loss expenses. We had accrued $3.7 billion of gross loss and loss expense reserves and $3.1 billion of net loss and loss expense reserves at December 31, 2016. At December 31, 2015, these gross and net reserves were $3.5 billion and $3.0 billion, respectively.

The following tables provide case and incurred but not reported ("IBNR") reserves for losses and loss expenses, and reinsurance recoverable on unpaid losses and loss expenses as of December 31, 2016 and 2015:
As of December 31, 2016

	Losses and Loss Expense Reserves				
($ in thousands)	Case Reserves	IBNR Reserves	Total	Reinsurance Recoverable on Unpaid Losses and Loss Expenses	Net Reserves
General liability	$ 235,329	1,053,400	1,288,729	179,997	1,108,732
Workers compensation	463,523	745,590	1,209,113	223,327	985,786
Commercial auto	170,380	259,861	430,241	17,373	412,868
Businessowners' policies	40,018	56,894	96,912	7,012	89,900
Commercial property	50,757	7,910	58,667	13,615	45,052
Other	5,243	9,647	14,890	2,613	12,277
Total Standard Commercial Lines	965,250	2,133,302	3,098,552	443,937	2,654,615
Personal automobile	78,512	72,435	150,947	55,223	95,724
Homeowners	24,779	19,845	44,624	3,206	41,418
Other	64,314	26,198	90,512	82,625	7,887
Total Standard Personal Lines	167,605	118,478	286,083	141,054	145,029
Commercial liability[1]	50,337	241,473	291,810	25,741	266,069
Commercial property[2]	8,253	7,021	15,274	468	14,806
Total E&S Lines	58,590	248,494	307,084	26,209	280,875
Total	$ 1,191,445	2,500,274	3,691,719	611,200	3,080,519

[1]Includes general liability (97% of net reserves) and commercial auto liability coverages (3% of net reserves).

[2]Includes commercial property (93% of net reserves) and commercial auto property coverages (7% of net reserves).

December 31, 2015

($ in thousands)	Losses and Loss Expense Reserves				
	Case Reserves	IBNR Reserves	Total	Reinsurance Recoverable on Unpaid Losses and Loss Expenses	Net Reserves
General liability	$ 247,162	970,541	1,217,703	148,113	1,069,590
Workers compensation	479,789	750,238	1,230,027	225,948	1,004,079
Commercial auto	166,606	227,159	393,765	18,983	374,782
Businessowners' policies	40,496	54,937	95,433	5,459	89,974
Commercial property	41,455	6,560	48,015	8,390	39,625
Other	4,126	9,680	13,806	2,275	11,531
Total Standard Commercial Lines	979,634	2,019,115	2,998,749	409,168	2,589,581
Personal automobile	87,589	79,136	166,725	64,258	102,467
Homeowners	29,072	20,364	49,436	2,129	47,307
Other	27,149	21,744	48,893	40,338	8,555
Total Standard Personal Lines	143,810	121,244	265,054	106,725	158,329
Commercial liability[1]	52,376	190,101	242,477	34,355	208,122
Commercial property[2]	6,289	5,159	11,448	771	10,677
E&S Lines	58,665	195,260	253,925	35,126	218,799
Total	$ 1,182,109	2,335,619	3,517,728	551,019	2,966,709

[1]Includes general liability (97% of net reserves) and commercial auto liability coverages (3% of net reserves).
[2]Includes commercial property (93% of net reserves) and commercial auto property coverages (7% of net reserves).

How reserves are established

When a claim is reported to us, claims personnel establish a “case reserve” for the estimated amount of the reported loss. The amount of the reserve is primarily based on a case-by-case evaluation of the type of claim involved, the circumstances surrounding each claim, and the policy provisions relating to the type of losses, less any amounts previously paid to the claimant. The estimate reflects the informed judgment of such personnel based on their knowledge, experience, and general insurance reserving practices. Until the claim is resolved, these estimates are revised as deemed appropriate by the responsible claims personnel based on subsequent developments and periodic reviews of the case.

Using generally accepted actuarial reserving techniques, we project our estimate of ultimate losses and loss expenses at each reporting date. Our IBNR reserve is the difference between the projected ultimate losses and loss expenses incurred and the sum of: (i) case losses and loss expense reserves; and (ii) paid losses and loss expenses. The actuarial techniques used in determining ultimate losses are part of a comprehensive reserving process that includes two primary components. The first component is a detailed quarterly reserve analysis performed by our internal actuarial staff. In completing this analysis, the actuaries must gather substantially similar data in sufficient volume to ensure statistical credibility of the data, while maintaining appropriate differentiation. This process defines the reserving segments, to which various actuarial projection methods are applied. When applying these methods, the actuaries are required to make numerous assumptions including, for example, the selection of loss and loss expense development factors and the weight to be applied to each individual projection method. These methods include paid and incurred versions for the following: loss and loss expense development, Bornhuetter-Ferguson, Berquist-Sherman, and frequency/severity modeling (chain-ladder approach). The second component of the analysis is the projection of the expected ultimate loss and loss expense ratio for each line of business for the current accident year. This projection is part of our planning process wherein we review and update expected loss and loss expense ratios each quarter. This review includes actual versus expected pricing changes, loss and loss expense trend assumptions, and updated prior period loss and loss expense ratios from the most recent quarterly reserve analysis.

In addition to the quarterly reserve analysis, a range of possible IBNR reserves is estimated annually and continually considered, among other factors, in establishing IBNR for each reporting period. Loss and loss expense trends are also considered, which include, but are not limited to, large loss activity, asbestos and environmental claim activity, large case reserve additions or reductions for prior accident years, and reinsurance recoverable issues. We also consider factors such as: (i) per claim information; (ii) company and industry historical loss experience; (iii) legislative enactments, judicial decisions, legal developments in the imposition of damages, and changes in political attitudes; and (iv) trends in general economic conditions, including the effects of inflation. Based on the consideration of the range of possible IBNR reserves, recent loss and loss expense trends, uncertainty associated with actuarial assumptions, and other factors, IBNR is established and the ultimate net liability for losses and loss expenses is determined. Such an assessment requires considerable judgment given that it is frequently not possible to determine whether a change in the data is an anomaly until sometime after the event. Even if a change is determined to be permanent, it is not always possible to reliably determine the extent of the change until sometime later. There is no precise method for subsequently evaluating the impact of any specific factor on the adequacy of reserves because the eventual deficiency or redundancy is affected by many factors. The changes in these estimates, resulting from the continuous review process and the differences between estimates and ultimate payments, are reflected in the Consolidated Statements of Income for the period in which such estimates are changed. Any changes in the liability estimate may be material to the results of operations in future periods. In addition to our internal review, statutory regulation requires us to have a Statement of Actuarial Opinion issued annually on our statutory reserve adequacy. We engage an independent actuary to issue this opinion based on their independent review.

Range of reasonable reserves

We have estimated a range of reasonably possible reserves for net loss and loss expense claims to be $2,780 million to $3,237 million at December 31, 2016, which compares to $2,694 million to $3,136 million at December 31, 2015. These ranges reflect low and high reasonable reserve estimates, which were selected primarily by considering the range of indications calculated using generally accepted actuarial techniques. Such techniques assume that past experience, adjusted for the effects of current developments and anticipated trends, are an appropriate basis for predicting future events. Although these ranges reflect likely scenarios, it is possible that the final outcomes may fall above or below these amounts. The ranges do not include a provision for potential increases or decreases associated with asbestos, environmental, and other continuous exposure claims, as traditional actuarial techniques cannot be effectively applied to these exposures.

In 2016, we experienced overall net favorable loss development of $65.8 million, compared to $69.0 million in 2015, and $59.3 million in 2014. The following table summarizes prior year development by line of business:

(Favorable)/Unfavorable Prior Year Loss and Loss Expense Development

($ in millions)	2016	2015	2014
General liability	$(45.0)	(51.0)	(43.9)
Workers compensation	(56.0)	(37.0)	—
Commercial automobile	25.3	2.4	(4.1)
Businessowners' policies	1.8	2.2	1.9
Commercial property	0.3	(3.0)	(2.1)
Personal automobile	1.0	0.4	(10.8)
Homeowners	1.7	1.5	(4.0)
E&S	7.1	15.5	3.7
Other	(2.0)	—	—
Total	$(65.8)	(69.0)	(59.3)

Major developments related to loss and loss expense reserve estimates and uncertainty

The Insurance Subsidiaries are multi-state, multi-line property and casualty insurance companies and, as such, are subject to reserve uncertainty stemming from a variety of sources. These uncertainties are considered at each step in the process of establishing loss and loss expense reserves. As market conditions change, certain developments may occur that increase or decrease the amount of uncertainty. These developments include impacts within our own paid and reported loss and loss expense experience, as well as other internal and external factors that have not yet manifested within our data, but may do so in the future. All of these developments are considered when establishing loss and loss expense reserves, and in estimating the range of reasonable reserves.

For the past eleven years, the Insurance Subsidiaries have experienced net favorable prior accident year loss and loss expense development, although there can be no assurance that this will continue, or that we may experience adverse prior accident year loss and loss expense development in future periods. Over the past three years, contributions to the favorable emergence have come from different lines of business at different points in time. The greater contributions have generally come from the longer tailed casualty lines, primarily due to their associated volume of reserves and the inherent uncertainty of the longer claims settlement process, although this has been offset in part by adverse prior accident year loss and loss expense development within certain lines such as commercial and personal auto liability and E&S.

A more detailed discussion of recent developments, by line of business, follows.

Standard Market General Liability Line of Business
At December 31, 2016, our general liability line of business had recorded reserves, net of reinsurance, of $1.1 billion, which represented 36% of our total net reserves. In 2016, this line experienced favorable development of $45.0 million, attributable mainly to lower than anticipated claims severities in accident years 2008 through 2013 and 2015.

During 2015, this line experienced favorable development of $51.0 million, attributable mainly to accident years 2013 and prior. This was primarily driven by severities that continued to develop lower than expected, within both the premises and operations and products liability coverages. In addition, the reduction in frequencies that we had seen in the immediately prior accident years continued into accident year 2015.

Standard Market Workers Compensation Line of Business
At December 31, 2016, our workers compensation line of business recorded reserves, net of reinsurance, of $1.0 billion, which represented 32% of our total net reserves. During 2016, this line experienced favorable development of $56.0 million driven by accident years 2014 and prior. During 2015, this line experienced favorable development of $37.0 million driven by virtually all prior accident years. The results over the past two years represent a change compared to 2014, during which this line experienced no development on prior accident years. During 2016, this line showed continued reductions in paid and reported loss amounts, due, in part, to: (i) lower medical inflation than originally anticipated; (ii) our proactive underwriting actions in recent years; and (iii) various significant claims initiatives that we implemented, including the centralization of our workers compensation claims handling in Charlotte, North Carolina, more favorable Preferred Provider Organizations ("PPO") contracts, greater PPO penetration, and more proactive case management in the areas of medical, pharmaceutical, and physical therapy treatments. Jurisdictionally trained and aligned medical only and lost-time adjusters manage non-complex workers compensation claims within our footprint. Claims with high exposure and/or significant escalation risk are referred to the workers compensation strategic case management unit.

While we believe these changes are significant drivers of our improved loss experience, there is always risk associated with change. Most notably, these changes in operations may inherently change paid and reported development patterns. While our reserve analyses incorporate methods that adjust for these changes, there nevertheless remains a greater risk in the estimated reserves.

In addition to the uncertainties associated with actuarial assumptions and methodologies described above, the workers compensation line of business can be impacted by a variety of issues, such as the following:

Unexpected changes in medical cost inflation - The industry is currently experiencing a period of lower claim cost inflation. Changes in our historical workers compensation medical costs, along with uncertainty regarding future medical inflation, creates the potential for additional variability in our reserves;

Changes in statutory workers compensation benefits - Benefit changes may be enacted that affect all outstanding claims, regardless of having occurred in the past. Depending upon the social and political climate, these changes may either increase or decrease associated claim costs;

Changes in utilization of the workers compensation system - These changes may be driven by economic, legislative, or other changes. For example, higher levels of unemployment could ultimately impact both the severity and frequency of workers compensation claims. In particular, during more difficult economic times, workers may be more likely to use the system, and less likely to return to work. Another example is the potential changes to federal healthcare laws, which, depending on the nature of the changes, may have either positive or negative impacts on workers compensation costs.

Changes in the economy could impact reserves in other ways. For example, in 2016, audit and endorsement activity resulted in additional premium of $22.6 million, and in 2015, audit and endorsement activity resulted in additional premium of $22.5 million. As premiums earned are used as a basis for setting initial reserves on the current accident year, our reserves could be impacted. While audit and endorsement premiums are modeled within our annual budgeting process, they remain uncertain, and therefore provide additional variability to the resulting loss and loss expense ratio estimates.

Standard Market Commercial Automobile Line of Business
At December 31, 2016, our commercial automobile line of business had recorded reserves, net of reinsurance, of $413 million, which represented 13% of our total net reserves. In 2016, this line experienced unfavorable development of $25.3 million, which was mainly driven by higher severity in accident year 2014 and higher frequency and severity in 2015.

In 2015, this line experienced unfavorable development of $2.2 million, which was driven by bodily injury liability for accident years 2013 and 2014. This was partially offset by favorable development in accident years 2010 and 2011.

For the industry, the commercial automobile line has experienced unfavorable trends in recent years, in both its casualty and property coverages. While no direct causal relationships can be drawn, increased frequencies may be due to increased miles driven, which may be the result of the economic recovery and lower gasoline prices, as well as distracted driving. Rising severities may be the result of the increasing complexity of vehicles and the technology they incorporate, which results in increased repair costs.

We are currently taking actions to improve the profitability of this line of business, including:

- Reducing premium leakage by improving the quality of our rating information. This includes validating application information using third party data and using more detailed driver information.
- Co-underwriting selected higher hazard classes by the field and home office, providing better recognition of risk drivers and improved pricing. This includes increasing rate targets on these exposures.
- Continuing to leverage our predictive modeling and analytical capabilities to provide more granular and actionable rate per exposure unit guidance on new business opportunities, while also developing and executing targeted rate change and underwriting actions on our renewal portfolio.

Standard Market Personal Automobile Line of Business
At December 31, 2016, our personal automobile line of business had recorded reserves, net of reinsurance, of $96 million, which represented 3% of our total net reserves. In 2016, this line experienced unfavorable development of $1.0 million. While this development is relatively neutral overall, it results from an increase in accident year 2015, largely offset by a decrease in accident year 2014. This line experienced unfavorable prior year development of $0.4 million in 2015. We continue to recalibrate our predictive models, as well as refine our underwriting and pricing approaches. While we believe these changes will ultimately lead to improved profitability and greater stability, they may impact paid and reported development patterns, thereby increasing the uncertainty in the reserves in the near-term.

E&S Lines
At December 31, 2016, our E&S Lines had recorded reserves, net of reinsurance, of $281 million, which represented 9% of our total net reserves. In 2016, these lines experienced unfavorable development of $7.1 million, mostly associated with accident year 2014. In 2015, these lines experienced unfavorable development of $15.5 million, associated with accident years 2012 through 2014. Since we have limited historical loss experience in this segment, our reserve estimates are partially based on development patterns of companies that have similar operations. Therefore, these estimates are subject to somewhat greater uncertainty than the comparable standard operations lines of business. As our own experience matures, we will continue to place greater weight upon it, and less weight upon the surrogate patterns.

In order to improve outcomes, we have taken the following actions related to E&S claims:

- Effective January 1, 2015, the E&S Claims operation began reporting through our Corporate Claims division in Charlotte, North Carolina.
- Complex claims were integrated into our standard lines CCU in August 2015.
- Potential complex liability claims are now systematically identified and referred to our CCU.
- Effective January 1, 2016, the E&S Claims operation in Scottsdale, Arizona was closed and all open and new claims are now handled out of our standard lines regional claims offices by dedicated E&S claims personnel.
- Claims have been segregated into “litigated” versus “non-litigated.” Separate claim handling teams have been created, with the required skill sets, to appropriately handle these two types of claims.
- Implemented the following expense improvement initiatives regarding outside adjusters and legal counsel:

Maximized use of staff counsel when geographically possible;
Utilized staff coverage attorney for coverage reviews;
Heightened focus on legal budgeting and expense management;
Required panel counsel firms to use our electronic legal billing and budgeting system to better manage budgets and expenses associated with litigation; and
Implemented a panel counsel review process.

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- In addition to the expense improvement initiatives above, we anticipate implementing the following in 2017 to further improve benefits:
Expanding the use of staff counsel in high volume, high cost locations; and
Expanding the use of alternative fee arrangements with panel counsel.
- For property claims, similar corporate oversight and referrals have been implemented. In addition, large losses are now adjusted by or overseen by Standard Lines property personnel.

We believe that the actions above will not only lead to earlier identification of severe claims, but also earlier claims resolutions with improved outcomes. We have begun to see the benefits of the actions above, through significantly lower loss adjustment expenses.

Other impacts creating additional loss and loss expense reserve uncertainty

Claims Initiative Impacts
In addition to the line of business specific issues mentioned above, our lines of business have been impacted by a number of initiatives undertaken by our Claims Department that have resulted in variability, or shifts, in the average level of case reserves. Some of these initiatives have also impacted claims settlement rates. These changes affect the data upon which the ultimate loss and loss expense projections are made. While these changes in case reserve levels and settlement rates increase the uncertainty in the short run, we expect the longer-term benefit will be a more refined management of the claims process.

Some of the specific actions implemented over the past several years, other than those regarding E&S as discussed above, are as follows:

- Increased focus on reducing workers compensation medical costs through more favorable PPO contracts and greater PPO penetration.
- A more comprehensive approach for handling workers compensation claims, with an emphasis towards improving recovery times, allowing for earlier “return-to-work.” This involves elevated and proactive case management in the areas of medical, pharmaceutical, and physical therapy treatments.
- The continued use of our CCU, to which all significant and complex liability claims are assigned. This unit has been staffed with personnel that have significant experience in handling and settling these types of claims.
- The strategic realignment of our CMS model to handle property claims under $5,000.
- The continued use of our PCSs and our LLU. Our PCSs handle claims between $5,000 and $100,000, while the LLU handles claims above $100,000. Both groups form the core of our catastrophe response team. During 2016, we began increasing the number of property claims specialists to respond to property claims with higher severity and/or complexity. This provides us with more staff to respond to claim volume, including the fluctuations that result from catastrophes, while ensuring we have the highest level of property expertise available to apply to our more complex claims.
- Continued efforts in the areas of fraud investigation and salvage/subrogation recoveries. These efforts have been supported by the introduction of predictive models that allow us to better focus our efforts.

Our internal reserve analyses incorporate actuarial projection methods, which make adjustments for changes in case reserve adequacy and claims settlement rates. These methods adjust our historical loss experience to the current level of case adequacy or settlement rate, which provides a more consistent basis for projecting future development patterns. These methods have their own assumptions and judgments associated with them, so as with any projection method, they are not definitive in and of themselves. Furthermore, given that the expected benefits from our claims initiatives take time to fully manifest, we do not take full credit for the anticipated benefit in establishing our loss and loss expense reserves. These initiatives may prove more or less beneficial than currently reflected, which will affect development in future years. Our various projection methods provide an indication of these potential future impacts.

These impacts would be greatest within our larger reserve lines of workers compensation, general liability, and commercial automobile liability, within the more recent accident years.

Economic Inflationary Impacts

Although inflationary volatility is expected to be low in the near term, current United States monetary policy and global economic conditions bring additional uncertainty in the long-term given the length of time required for claim settlement and the impact of medical cost trends relating to longer-tail liability and workers compensation claims. Uncertainty regarding future inflation or deflation creates the potential for additional volatility in our reserves for these lines of business.

Sensitivity analysis: Potential impact on reserve uncertainty due to changes in key assumptions
Our process to establish reserves includes a variety of key assumptions, including, but not limited to, the following:
- The selection of loss and loss expense development factors;
- The weight to be applied to each individual actuarial projection method;
- Projected future loss trends; and
- Expected ultimate loss and loss expense ratios for the current accident year.

The importance of any single assumption depends on several considerations, such as the line of business and the accident year. If the actual experience emerges differently than the assumptions used in the process to establish reserves, changes in our reserve estimate are possible and may be material to the results of operations in future periods. Set forth below are sensitivity tests that highlight potential impacts to loss and loss expense reserves under different scenarios, for the major casualty lines of business. These tests consider each assumption and line of business individually, without any consideration of correlation between lines of business and accident years. Therefore, the results in the tables below do not constitute an actuarial range. While the figures represent possible impacts from variations in key assumptions as identified by management, there is no assurance that the future emergence of our loss and loss expense experience will be consistent with either our current or alternative sets of assumptions.

While the sources of variability discussed above are generated by different underlying trends and operational changes, they ultimately manifest themselves as changes in the expected loss and loss expense development patterns. These patterns are a key assumption in the reserving process. In addition to the expected development patterns, the expected loss and loss expense ratios are another key assumption in the reserving process. These expected ratios are developed through a rigorous process of projecting recent accident years' experience to an ultimate settlement basis, and then adjusting it to the current accident year's pricing and loss cost levels. Impact from changes in the underwriting portfolio and changes in claims handling practices are also quantified and reflected, where appropriate. As is the case with all estimates, the ultimate loss and loss expense ratios may differ from those currently estimated.

The sensitivities of loss and loss expense reserves to these key assumptions are illustrated below for the major casualty lines. The first table shows the estimated impacts from changes in expected reported loss and loss expense development patterns. It shows reserve impacts by line of business if the actual calendar year incurred amounts are greater or less than current expectations by the selected percentages. While the selected percentages by line are judgmentally based, they reflect the relative contribution of the specific line of business to the overall reserve range. The second table shows the estimated impacts from changes to the expected loss and loss expense ratios for the current accident year. It shows reserve impacts by line of business if the expected loss and loss expense ratios for the current accident year are greater or less than current expectations by the selected percentages.

Reserve Impacts of Changes to Prior Years Expected Loss and Loss Expense Reporting Patterns

($ in millions)	Percentage Decrease/Increase	(Decrease) to Future Calendar Year Reported	Increase to Future Calendar Year Reported
General liability	7 %	$ (80)	$ 80
Workers compensation	7	(70)	70
Commercial automobile liability	10	(35)	35
Personal automobile liability	15	(10)	10
E&S liability	10	(35)	35

Reserve Impacts of Changes to Current Year Expected Ultimate Loss and Loss Expense Ratios

($ in millions)	Percentage Decrease/Increase		(Decrease) to Current Accident Year Expected Loss and Loss Expense Ratio	Increase to Current Accident Year Expected Loss and Loss Expense Ratio
General liability	7	pts	$ (37)	$ 37
Workers compensation	7		(22)	22
Commercial automobile liability	7		(21)	21
Personal automobile liability	7		(6)	6
E&S liability	7		(11)	11

Note that there is some overlap between the impacts in the two tables. For example, increases in the calendar year development would ultimately impact our view of the current accident year's loss and loss expense ratios. Nevertheless, these tables provide perspective into the sensitivity of each of these key assumptions.

Asbestos and Environmental Reserves
Our general liability, excess liability, and homeowners reserves include exposure to asbestos and environmental claims. Our exposure to environmental liability is primarily due to: (i) landfill exposures from policies written prior to the absolute pollution endorsement in the mid 1980s; and (ii) underground storage tank leaks mainly from New Jersey homeowners policies. These environmental claims stem primarily from insured exposures in municipal government, small non-manufacturing commercial risks, and homeowners policies.

The total carried net losses and loss expense reserves for these claims were $22.7 million as of December 31, 2016 and $23.2 million as of December 31, 2015. The emergence of these claims occurs over an extended period and is highly unpredictable. For example, within our Standard Commercial Lines book, certain landfill sites are included on the National Priorities List ("NPL") by the United States Environmental Protection Agency ("USEPA"). Once on the NPL, the USEPA determines an appropriate remediation plan for these sites. A landfill can remain on the NPL for many years until final approval for the removal of the site is granted from the USEPA. The USEPA has the authority to re-open previously closed sites and return them to the NPL. We currently have reserves for nine customers related to six sites on the NPL.

"Asbestos claims" are claims for bodily injury alleged to have occurred from exposure to asbestos-containing products. Our primary exposure arises from insuring various distributors of asbestos-containing products, such as electrical and plumbing materials. At December 31, 2016, asbestos claims constituted 29% of our $22.7 million net asbestos and environmental reserves, compared to 29% of our $23.2 million net asbestos and environmental reserves at December 31, 2015.

"Environmental claims" are claims alleging bodily injury or property damage from pollution or other environmental contaminants other than asbestos. These claims include landfills and leaking underground storage tanks. Our landfill exposure lies largely in policies written for municipal governments, in their operation or maintenance of certain public lands. In addition to landfill exposures, in recent years, we have experienced a relatively consistent level of reported losses in the homeowners line of business related to claims for groundwater contamination from leaking underground heating oil storage tanks in New Jersey. In 2007, we instituted a fuel oil system exclusion on our New Jersey homeowners policies that limits our exposure to leaking underground storage tanks for certain customers. At that time, existing customers were offered a one-time opportunity to buy back oil tank liability coverage. The exclusion applies to all new homeowners policies in New Jersey. These customers are eligible for the buy-back option only if the tank meets specific eligibility criteria.

Our asbestos and environmental claims are handled in our centralized and specialized asbestos and environmental claim unit. Case reserves for these exposures are evaluated on a claim-by-claim basis. The ability to assess potential exposure often improves as a claim develops, including judicial determinations of coverage issues. As a result, reserves are adjusted accordingly.

Estimating IBNR reserves for asbestos and environmental claims is difficult because of the delayed and inconsistent reporting patterns associated with these claims. In addition, there are significant uncertainties associated with estimating critical assumptions, such as average clean-up costs, third-party costs, potentially responsible party shares, allocation of damages, litigation and coverage costs, and potential state and federal legislative changes. Normal historically-based actuarial approaches cannot be applied to asbestos and environmental claims because past loss history is not indicative of future potential loss emergence. In addition, while certain alternative models can be applied, such models can produce significantly different results with small changes in assumptions. As a result, we do not calculate an asbestos and environmental loss range. Historically, our asbestos and environmental claims have been significantly lower in volume, with less volatility and uncertainty than many of our competitors in the commercial lines industry. Prior to the introduction of the absolute pollution exclusion endorsement in the mid-1980's, we were primarily a personal lines carrier and therefore do not have broad exposure to asbestos and environmental claims. Additionally, we are the primary insurance carrier on the majority of these exposures, which provides more certainty in our reserve position compared to others in the insurance marketplace.

Pension and Post-retirement Benefit Plan Actuarial Assumptions

Our pension and post-retirement benefit obligations and related costs are calculated using actuarial methods, within the framework of U.S. GAAP. Two key assumptions, the discount rate and the expected return on plan assets, are important elements of expense and/or liability measurement. We evaluate these key assumptions annually. Other assumptions involve demographic factors, such as retirement age and mortality.

The discount rate enables us to state expected future cash flows at their present value on the measurement date. The purpose of the discount rate is to determine the interest rates inherent in the price at which pension benefits could be effectively settled. Our discount rate selection is based on high-quality, long-term corporate bonds. A higher discount rate reduces the present value of benefit obligations and generally reduces pension expense. Conversely, a lower discount rate increases the present value of benefit obligations and generally increases pension expense. For additional information regarding our discount rate selection, refer to Note 14. “Retirement Plans” in Item 8. “Financial Statements and Supplementary Data.” of this Form 10-K.

The expected long-term rate of return on the plan assets is determined by considering the current and expected asset allocation, as well as historical and expected returns on each plan asset class. A lower expected rate of return on pension plan assets would increase pension expense. Our long-term expected return on plan assets decreased 13 basis points, to 6.24%, in 2016 as compared to 6.37% in 2015, reflecting the current interest rate environment.

At December 31, 2016, our pension and post-retirement benefit plan obligation was $346.0 million compared to $324.8 million at December 31, 2015. Plan assets were $316.5 million and $249.7 million at December 31, 2016 and December 31, 2015, respectively. Volatility in the marketplace, coupled with changes in the discount rate assumption, could materially impact our pension and post-retirement life valuation in the future. For additional information regarding our pension and post-retirement benefit plan obligations, see Note 14. “Retirement Plans” in Item 8. “Financial Statements and Supplementary Data.” of this Form 10-K.

Investment Valuation and OTTI

Investment Valuation

Fair value of our investment portfolio is defined under accounting guidance as the exit price or the amount that would be: (i) received to sell an asset; or (ii) paid to transfer a liability in an orderly transaction between market participants. When determining an exit price we must, when available, rely upon observable market data. Our AFS portfolio is carried at fair value and the related unrealized gains or losses are reflected in stockholders' equity, net of tax. For both our AFS and HTM portfolios, fair value is a key factor in the evaluation of a security for OTTI.

We have categorized our investment portfolio, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The fair value of approximately 99% of our investment portfolio is classified as either Level 1 or Level 2 in the fair value hierarchy. Fair value measurements in Level 1 represent quoted prices in active markets for identical assets. Fair value measurements in Level 2 represent prices determined using observable data from similar securities that have traded in the marketplace, typically using matrix pricing. The fair value of our Level 2 securities are determined by external pricing services. We have evaluated the pricing methodology used for these Level 2 prices and have determined that the inputs used are observable. For additional information regarding the valuation techniques used, refer to item (e) of Note 2. "Summary of Significant Accounting Policies" within Item 8. "Financial Statements and Supplementary Data." of this Annual Report.

Less than 1% of our investment portfolio is classified as Level 3 in the fair value hierarchy. Fair value measurements in Level 3 are based on unobservable market inputs because the related securities are not traded on a public market. For additional information regarding the valuation techniques used for our Level 3 securities, refer to item (e) of Note 2. "Summary of Significant Accounting Policies" within Item 8. "Financial Statements and Supplementary Data." of this Annual Report.

OTTI

Our investment portfolio is subject to market declines below amortized cost that may be other than temporary and therefore may result in the recognition of OTTI losses. Factors considered in the determination of whether or not a decline is other than temporary require significant judgment and include, but are not limited to, the financial condition of the issuer, the expected near-term and long-term prospects of the issuer, and our evaluation of the projected cash flow stream from the security. For additional information regarding our OTTI process and OTTI charges recorded, see item (d) of Note 2. "Summary of Significant Accounting Policies" and item (j) of Note 5. "Investments" within Item 8. "Financial Statements and Supplementary Data." of this Annual Report, respectively.

Reinsurance

Reinsurance recoverables on paid and unpaid losses and loss expenses represent estimates of the portion of such liabilities that will be recovered from reinsurers. Each reinsurance contract is analyzed to ensure that the transfer of risk exists to properly record the transactions in the Financial Statements. Amounts recovered from reinsurers are recognized as assets at the same time and in a manner consistent with the paid and unpaid losses associated with the reinsured policies. An allowance for estimated uncollectible reinsurance is recorded based on an evaluation of balances due from reinsurers and other available information. This allowance totaled $5.5 million at December 31, 2016 and $5.7 million at December 31, 2015. We continually monitor developments that may impact recoverability from our reinsurers and have available to us contractually provided remedies if necessary. For further information regarding reinsurance, see the “Reinsurance” section below and Note 8. “Reinsurance” in Item 8. “Financial Statements and Supplementary Data.” of this Form 10-K.

Financial Highlights of Results for Years Ended December 31, 2016, 2015, and 2014[1]

($ in thousands, except per share amounts)	2016	2015	2016 vs. 2015	2014	2015 vs. 2014
GAAP measures:					
Revenues	$2,284,270	2,131,852	7 %	$2,034,861	5 %
Pre-tax net investment income	130,754	121,316	8	138,708	(13)
Pre-tax net income	219,955	232,692	(5)	197,131	18
Net income	158,495	165,861	(4)	141,827	17
Diluted net income per share	$2.70	2.85	(5)	$2.47	15
Diluted weighted-average outstanding shares	58,747	58,156	1	57,351	1
GAAP combined ratio	92.9 %	92.5	0.4 pts	95.8 %	(3.3) pts
Statutory combined ratio	91.8	92.4	(0.6)	95.7	(3.3)
Invested assets per dollar of stockholders' equity	$3.50	3.64	(4) %	$3.77	(3) %
After-tax yield on investments	1.9 %	1.9	— pts	2.2 %	(0.3) pts
Return on average equity ("ROE")	10.8	12.4	(1.6)	11.7	0.7
Non-GAAP measures:					
Operating income	$161,704	157,300	3 %	$124,538	26 %
Diluted operating income per share	2.75	2.70	2	2.17	24
Operating ROE	11.0 %	11.8	(0.8) pts	10.3 %	1.5 pts

[1]Refer to the Glossary of Terms attached to this Form 10-K as Exhibit 99.1 for definitions of terms used in this financial review.

Reconciliations of net income, net income per share, and ROE to operating income, operating income per share, and operating ROE, respectively, are provided in the tables below:

Reconciliation of net income to operating income			
($ in thousands)	2016	2015	2014
Net income	$158,495	165,861	141,827
Exclude: Net realized losses (gains)	4,937	(13,171)	(26,599)
Exclude: Tax on net realized losses (gains)	(1,728)	4,610	9,310
Operating income	$161,704	157,300	124,538

Reconciliation of net income per share to operating income per share	2016	2015	2014
Diluted net income per share	$2.70	2.85	2.47
Exclude: Net realized losses (gains) per share	0.08	(0.23)	(0.46)
Exclude: Tax on net realized losses (gains) per share	(0.03)	0.08	0.16
Diluted operating income per share	$2.75	2.70	2.17

Reconciliation of ROE to operating ROE	2016	2015	2014
ROE	10.8 %	12.4	11.7
Exclude: Net realized losses (gains)	0.3	(1.0)	(2.2)
Exclude: Tax on net realized losses (gains)	(0.1)	0.4	0.8
Operating ROE	11.0 %	11.8	10.3

We generated excellent financial results in 2016, continuing the trend of excellent financial performance we achieved in 2015 and 2014, which reflects our hard work to drive renewal pure price increases within our Standard Commercial and Personal Lines segments as well as our E&S segment, generate new business, improve the underlying profitability of our book of business through various underwriting and claims initiatives. In 2016, we also moved to more actively manage our investment portfolio to generate higher after-tax net investment income in an investment environment of declining interest rates. Our NPW growth of 8% in 2016 and 10% in 2015 was driven by our strong franchise value with our ivy league distribution partners. Over the past 28 quarters, our Standard Commercial Lines renewal pure price increases have cumulatively outperformed the Willis Towers Watson Commercial Lines Pricing (or CLIPs) survey by approximately 1700 basis points, while maintaining high retention rates. In addition, NPW growth was aided by the appointment of 110 retail agents in 2016 and some new business opportunities in our E&S segment as we increased our appetite for new business through our brokerage channel.

In addition to the cumulative pure renewal price increases we have achieved over the past several years, we have benefited from underwriting and claims process enhancements, as well as a shift in our business mix towards higher quality accounts. For example, our workers compensation book of business, which represents approximately 20% of our Standard Commercial Lines business, continues to benefit from the steps we have taken in recent years to increase premium rates and to improve the business mix by shifting towards lower hazard and smaller accounts from higher hazard and larger accounts. Additionally, claims initiatives, such as having an increased focus on reducing workers compensation medical costs through more favorable PPO contracts and greater PPO penetration, have helped to improve profitability of this line. The statutory combined ratios for this line of business improved, aided by net favorable loss development, from 110.1% in 2014 to 88.2% in 2015 and 80.7% in 2016. Our E&S segment has also seen an improvement in underwriting results as we have continued to deploy our corporate claims practices in this operation, although we have not yet met our financial targets for this segment. For a full discussion of the claims initiatives that we have deployed, refer to the “Reserves for Loss and Loss Expenses” section within Critical Accounting Policies in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Pre-tax net investment income grew 8% in 2016 compared to 2015 after decreasing 13% compared to 2014. The improvement in 2016 was driven by a higher fixed income asset base and improved returns on our alternative investments, while the decrease in 2015 compared to 2014 was due to lower returns on these alternative investments. During 2016, we determined that a more active management approach to our investment portfolio was necessary to maximize the risk-adjusted after-tax income and total return of the portfolio, while maintaining a similar level of credit quality and duration risk. We evaluated our previous buy-and-hold low turnover approach in the context of the current market environment, and concluded that a change was necessary to more effectively diversify, navigate, and manage the portfolio in response to the persistently low and volatile interest rate environment, the potential for rising inflation, and an uncertain political and tax landscape. To execute on this approach, we hired four new fixed income investment managers in 2016, increased our long-term target risk asset allocation, and modestly increased our exposure to non-investment grade fixed income securities, private equity investments, and private credit strategies to further diversity our allocation within risk assets. Our risk assets, which include public equities, non-investment grade fixed income securities, private equity investments, and other limited partnership private investments, represented 7% of our total invested assets at December 31, 2016 and may increase to approximately 10% over time.

The improvements to our underwriting profitability and after tax net investment income discussed above drove our long-term goal of generating an operating ROE that is approximately 300 basis points in excess of our weighted average cost of capital over time. Although our operating income increased in 2016, compared to 2015, our operating ROE was below 2015 levels, due to higher comprehensive income, partially offset by dividends paid to our shareholders, which has increased our shareholders' equity. Our ROE and operating ROE contributions by component are as follows:

Return on Average Equity	2016	2015	2014

Insurance segments	6.7 %	7.3	4.2
Investment income	6.7	7.0	8.6
Other	(2.4)	(2.5)	(2.5)
Net realized (losses) gains, net of tax at 35%	(0.2)	0.6	1.4
ROE	10.8	12.4	11.7
Exclude: Net realized losses (gains), net of tax at 35%	0.2	(0.6)	(1.4)
Operating ROE	11.0 %	11.8	10.3
Weighted average cost of capital	8.5 %	8.7	8.9

Insurance Segments

The key metric in understanding our insurance segments' contribution to ROE is the GAAP combined ratio. The following table provides a quantitative foundation for analyzing this ratio:

All Lines ($ in thousands)	2016		2015	2016 vs. 2015		2014		2015 vs. 2014	
GAAP Insurance Operations Results:									
Net Premiums Written ("NPW")	$2,237,288		2,069,904	8	%	$1,885,280		10	%
Net Premiums Earned ("NPE")	2,149,572		1,989,909	8		1,852,609		7	
Less:									
Losses and loss expenses incurred	1,234,797		1,148,541	8		1,157,501		(1)	
Net underwriting expenses incurred	759,194		686,120	11		610,783		12	
Dividends to policyholders	3,648		6,219	(41)		6,182		1	
Underwriting income	$151,933		149,029	2	%	$78,143		91	%
GAAP Ratios:									
Loss and loss expense ratio	57.4	%	57.7	(0.3)	pts	62.5	%	(4.8)	pts
Underwriting expense ratio	35.3		34.5	0.8		33.0		1.5	
Dividends to policyholders ratio	0.2		0.3	(0.1)		0.3		—	
Combined ratio	92.9		92.5	0.4		95.8		(3.3)	
Statutory Ratios:									
Loss and loss expense ratio	57.4		57.7						