

# LEADING WITH PURPOSE

ENVIRONMENTAL, SOCIAL  
AND GOVERNANCE REPORT



## About this report

In preparing this inaugural report, we evaluated the public policy landscape on environmental, social, and governance (ESG) disclosures, including standards that have been suggested by government officials and various ESG advocates around the globe such as the Sustainability Accounting Standards Board (SASB), which is an independent, private sector standards-setting organization dedicated to improving the effectiveness and comparability of corporate ESG disclosures. SASB has developed an ESG disclosure standard for the insurance industry. The SASB insurance standard was considered in the preparation of this report, but the report has not been prepared strictly in accordance with it.

# TABLE OF CONTENTS

A Message from our Executive Chairman and CEO	3
Investing in our Employees	5
Serving our Customers Responsibly	12
Helping the Community	17
Building a Culture of Strong Governance	22
Mitigating Environmental Risk	28

**John Marchioni**  
Chief Executive Officer

**Gregory Murphy**  
Executive Chairman



## A MESSAGE FROM OUR EXECUTIVE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

As an insurance company, we see our primary roles as:

1. Helping customers put their lives and businesses back together after suffering an insured loss; and
2. Making our communities and customers safer.

Selective is committed to serving our customers responsibly, helping the communities in which we operate, enabling the professional success of our employees, maintaining the highest levels of ethics and integrity, and protecting the environment. We strive to live these ideals of corporate citizenship every day and run our firm responsibly for the benefit of all our stakeholders – including our employees, customers, distribution partners, communities and shareholders.

### **Our actions embody these ideals:**

Since our inception over 90 years ago, protecting and serving our customers has defined our business. Helping our employees reach their full potential, supporting the communities in which we live and work, and leaving the environment better than we found it for future generations, has defined us as a corporate citizen. As a property and casualty insurance company, we understand risks associated with climate change and the threat of increased frequency and severity of large catastrophic losses. We seek to mitigate the impact of climate change through prudent risk management, proactive weather alerts for our customers, and actively reducing our carbon footprint, including being more efficient with our natural resources and waste management. We also limit our underwriting and investment exposures to companies that generate a significant portion of their revenues from thermal coal mining or energy production.

### **Investing in attracting, developing and retaining best-in-class employees:**

Our future success depends on our ability to attract and retain the best talent, and we continue to invest heavily in the well-being, training, and advancement of our employees. Building a diverse and inclusive workforce fosters innovation, inspiration, and community. We are extremely committed to developing our employees, and we have expanded the number of leadership and development training programs we offer. Our employee development efforts are focused on increasing business and financial acumen and giving greater breadths of experience. We have robust programs to attract and retain the best talent, including our Ignite College Intern and NextGen leadership programs. We have launched an Innovation Lab at our corporate headquarters, with a goal towards encouraging talent development, idea-generation, and creativity, which are essential for our future success.

### **Engaging our customers with empathy and exceptional service:**

Our customers and distribution partners routinely praise our front-line employees and claims handlers for their exceptional service. One of our core company values – service excellence – underscores our commitment to responding to our customers promptly and with empathy, especially after experiencing a covered loss. Our locally-based safety management specialists visit business customers to identify potential risks and provide safety advice to prevent losses. We have invested in building out best-in-class servicing capabilities that allow our customers to engage with us 24x7 in an omni-channel environment for prompt and efficient service. Additional value-added customer services include proactive alerts and notifications about

product recalls, severe weather advisories, and safety messages – while our vehicle sensor device Selective® Drive helps perpetuate safe driving behaviors.

### **A force for good in our communities:**

Our corporate headquarters are located in Branchville, New Jersey, where our company was founded in 1926, and where approximately 788 of our 2,347 employees are based. We have eight major regional office locations across our geographic footprint. Having successful and thriving communities where we live, work, and serve is essential for our business. It also, simply put, is the right thing to do. Through our Selective Insurance Group Foundation, we are trying to make a difference in our communities through a half a million dollars in annual donations to nonprofit organizations providing health and human services, promoting civic responsibility, and supporting home, auto, and business safety. We recently purchased and are redeveloping our former headquarters in the center of Branchville, and we hope the project will spur other investment in the borough. By volunteering their time with local charities and non-profit organizations, our employees are making a positive impact on their community and representing the essence of Selective – the desire to leave society better than we found it.

### **A strong commitment to ethics and integrity:**

The foundation of our financial and operating success is strong governance and an unwavering focus on ethics. Our Code of Conduct instills in our employees a strong sense of integrity and purpose in guiding our employees' actions with other stakeholders. We seek to be transparent about how we compensate our employees and management by tying our annual bonus programs to a clearly disclosed set of financial and operating metrics and strategic initiatives.

### **Mitigating environmental risk:**

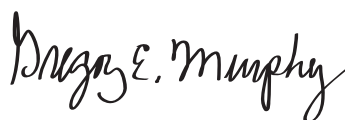
As a property and casualty insurance company, natural catastrophes are among the most serious risks facing our customers and communities. Climate change is increasing the unpredictability of catastrophes, such as hurricanes, floods, severe convective storms and wildfires, and causing significant property and business income losses. Our responsive claims team helps restore our customers' livelihoods after a catastrophic loss. We have taken active steps to allocate capital

through underwriting and investment initiatives away from environmentally hazardous classes of business. Our enterprise risk management framework, overseen by senior management and the Board, models and assesses loss probabilities. In the face of a catastrophe, we are proactive, and our safety management teams and messaging initiatives advise our customers on steps they can take to reduce the risk of loss. To reduce the impact of climate change, we are reducing our environmental footprint and investing in building a more sustainable environment for future generations. In 2019, we placed in service a \$6 million solar energy farm at our headquarters that will generate approximately 4 million kWh of energy annually or the equivalent of powering up to 800 houses for a year. At our headquarters, we have implemented paperless policies, reduced power and water usage, and recycled more commingled materials than in past years.

### **Serving our shareholders:**

Over the long run, being a responsible corporate citizen helps our ability to deliver positive results to our shareholders, and we have created significant value for our shareholders over time. For 2020, our non-GAAP operating ROE target is 11%. Being well-capitalized, managing our risk responsibly, maintaining our strong financial strength ratings, and continuing to run an efficient and profitable organization is essential to offering competitive products and services to our customers.

We invite you to read our Environmental Social Governance report. It outlines our efforts to create an environment where people feel empowered to bring about positive change. It highlights the accomplishments of our employees as they help build communities where more people can share in the dream of better tomorrows.



**Gregory E. Murphy**  
Executive Chairman



**John J. Marchioni**  
President and  
Chief Executive Officer



# INVESTING IN OUR EMPLOYEES

At Selective, we recognize that sustainable human capital commitments lead to superior longer-term financial performance. We invest significantly in the physical, financial and social well-being of our employees, which is essential to retaining the best talent. We also understand that we must continuously evolve our approach to attracting, retaining and developing our employees. We offer a collaborative work environment, an accessible leadership team, professional development opportunities, attractive financial rewards, and competitive benefits. To that end, we are committed to maintaining a safe workplace that is inclusive, ensures diversity, and offers attractive benefits:

## HIGHLIGHTS

- ✓ All employees have access to over 25,000 skills training courses and resources, as well as to a variety of instructor-led training courses
- ✓ Strong focus on increasing employee retention through attractive health and well-being, financial, and development programs
- ✓ Employee satisfaction survey with 81% participation rate and overall rating of 4.1/5.0
- ✓ Low employee turnover rate of 8.2% and strong retention rate with 16% of employees having exceeded 20 years of service
- ✓ Innovation Lab constructed in 2019 at our headquarters in Branchville, New Jersey
- ✓ Recognized as one of “America’s Best Midsize Employers” - Forbes

## Physical well-being

The health and well-being of our employees are vital. We offer a range of programs designed to foster a positive work-life balance. Offered at a fair cost, our benefit programs are designed to enhance our employee's health, help them avoid preventable diseases, and manage existing medical conditions.

- A full menu of benefits programs, including medical, pharmacy, dental, vision, paid time off, and disability;
- Health care plan choice, including health savings accounts and health reimbursement accounts with company seeding;
- Free on-site biometric screenings, and annual flu-shots;
- Company-paid smoking cessation programs and products for employees and spouses;
- Company-provided EAP along with web and app-based healthcare advocacy services provided to all employees and their families;
- Free on-site gym membership for employees and their spouses located at the corporate headquarters, gym membership reimbursement opportunity for remote and field-based employees; and
- Healthy lifestyle reimbursement programs.

## Financial well-being

We are committed to fair pay, and we regularly analyze and adjust compensation to ensure both internal equity and alignment with the external market. All of our employees are eligible to participate in an annual bonus program, and our recognition platform allows all employees to recognize the contributions of other employees. We also offer financial workshops that help our employees plan for the future regardless of where they are in their careers. Some of our programs that support the financial well-being of employees and their families include:

- Paid time-off;
- 401(k) savings plan with Roth option (100% Company match up to 4.5% of eligible compensation);
- 401(k) Company contribution after 1 year of service (4% of eligible compensation);
- Tuition reimbursement up to \$5,250 per year;
- Student Loan repayment program of up to \$1,200 per year;
- All employees are eligible to participate in our stock purchase plan (15% discount with a lookback feature);
- Company-paid Life Insurance program;
- Generous Disability Income protection programs and Paid Parental leave;
- Monetary assistance for adoption and covered fertility services;
- A range of flexible work arrangements;
- Academic scholarships for children of employees;
- Long-term Incentive Plan; and
- Deferred Compensation Plan.

## Social well-being

We support our employees in living full and meaningful lives by being involved with family and friends and being connected with their colleagues and their communities. Company events like Earth Day, Summer Kick-Off, Employee Appreciation Day, Logo Bowl, the Annual Toy Drive, and Build-a-Bike, allow our employees to socialize, feel valued, and give back.



**EMPLOYEES**

# TALENT ASSESSMENT AND EMPLOYEE RETENTION:

**8.2%**

Selective's employee turnover rate of 8.2% is well below the national 9.1% rate reported in Mercer's US Turnover Survey for 2019



Named one of "America's Best Mid-Size Employers" by Forbes Magazine

**81%**

Results of annual corporate-issued Employee Engagement Survey: 81% participation rate, with an overall rating of 4.1/5.0

**16%**

of our employees have over 20 years of service

**30%**

On average, 30% of open positions are filled by internal employees



**EMPLOYEES**

## Talent assessment:

Each employee receives a formal annual performance review, and performance conversations must take place at least semiannually, during which our employees and managers provide two-way feedback and discuss goals and career development plans.

## Attracting and retaining the best employees:

We invest significant resources in the development of our employees so that they can attain their full potential and have rewarding careers at Selective. To that end, we have introduced a number of new leadership and talent development programs and initiatives at all levels of the organization. We have identified a NextGen group of internal leaders whom we will continue to develop and invest in so they will be well prepared to lead Selective in the future. We strive to ensure a diverse population of individuals for our leadership development opportunities that are already established and for future programs. We also seek to create a strong pipeline of future employees through our Ignite College Internship and other recruitment programs.

## Innovation lab to spur idea-generation and creativity

In 2019, we built a new Innovation Lab located at our headquarters in Branchville, New Jersey. Our objective in this investment is to build a platform for new, creative and transformative ideas that can enhance our business and help shape our future. The mission of Selective's Innovation Lab is to "empower our employees to harness their passion to generate innovative ideas that result in impactful solutions and position Selective as a market leader."

## Strong focus on employee engagement

VIBES is an employee-run organization that is an acronym for Valuable Initiatives, Balance, and Employee Satisfaction. The organization's mission is to "ignite an entrepreneurial spirit, encourage diverse ideas, and create an environment of balance between productivity and fun." The VIBES organization has been instrumental in enhancing employee engagement through various initiatives, including Volunteer Day, Selective Spirit Day, Logo Bowl, Earth Day Activities, Friday Jean Days and the creation of VIBES Café at our corporate headquarters.

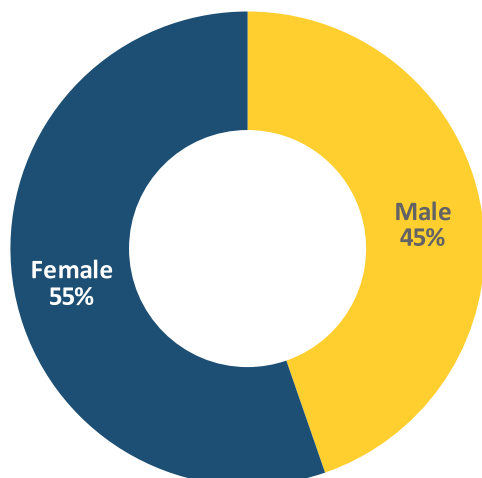
## INVESTING IN BUILDING THE LEADERS OF TOMORROW

Selective has a number of programs focused on developing and providing employees with the skill-sets they will need for future success here or elsewhere in their careers. As an organization, we are committed to ongoing learning, growth, and continuous improvement so our employees can be successful. We continue to identify and invest in our next generation of potential leaders. These initiatives include targeted programs to enhance employee business acumen and leadership skills.

### Learning and development programs

Selective is committed to the professional development of all our employees and we are proud to invest in workplace and leadership development skills as part of our Leadership University program. All of our employees have access to over 25,000 skills training courses and resources, as well as to a variety of live instructor-led training courses covering topics such as Unconscious Bias, Diversity, Empowerment and Leadership, Conversations and Feedback, Developing Others, Emotional Intelligence, and much more.

We require our officers, managers, and supervisors to create robust development plans and emphasize year-round development for all employees. In evaluating performance, we focus on business objectives and leadership competencies. For our officers, managers, and supervisors, performance is weighted 60% for delivery of their business objectives and 40% for their leadership competencies. By emphasizing both 'what' was delivered and 'how' it was delivered, we think we create better insurance leaders.

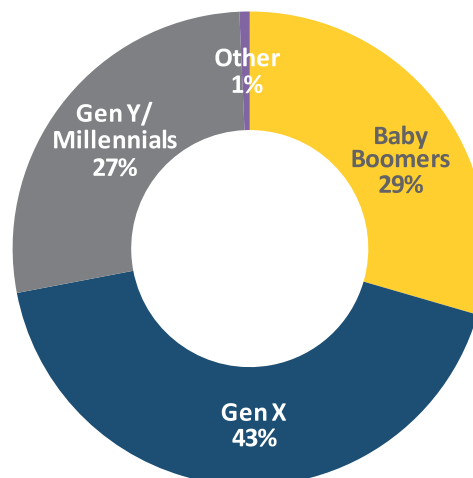


## DIVERSITY AND INCLUSION

We recognize that when employees with diverse cultural backgrounds, ideas and experiences work side-by-side, it fosters idea-generation and innovation. We have initiatives in place to increase representation and cultivate greater acceptance of differences of gender, ethnicity, race, age, sexual orientation and socio-economic background. In addition to taking ongoing actions, we publish all salary ranges and job descriptions below officer level to support transparency and open communication with all our employees. We also have mandatory diversity, anti-discrimination and anti-harassment training programs for all our employees.

### Strong diversification by gender and age demographics:

Like most companies in the financial services sector, women are the majority (55%) of our workforce as of the end of 2019. We have a number of initiatives in place to make Selective an attractive place to work, and we have programs that promote a healthy work-life balance and employee physical, social, and financial wellbeing. Women represent 56% of our non-officer workforce and just under a third of our officers. We have two women on our board of directors and have made increasing the representation of women in senior management roles over time as an important corporate priority. We have a diverse age demographic, with baby boomers and Gen Xers representing over 70% of our employee count.





## Leadership initiative “Women at Work”

Women at Work is a unique community of women who help each other advance at Selective through networking, mentoring, education, and empowerment. Members of the Women at Work planning council come from a diverse, corporate-wide group of employees who volunteer their time to advance the network’s mission. In 2019, Women at Work hosted two events: (i) a networking mixer that provided tools and resources to network effectively, and (ii) a leadership panel discussion, titled Elevate that featured female leaders from across Selective discussing skills and competencies that helped them elevate their careers. A calendar of monthly offerings in 2020 will continue the group’s momentum.

## Women’s Agency Leadership Initiative

We developed the Women’s Agency Leadership Initiative to help our distribution partners increase the number of women in insurance agency leadership roles. We seek to provide opportunities for women in insurance to network, share ideas, and access high-impact training sessions. In 2019, we held eleven local events for our distribution partners. Our third annual Women’s Agency Leadership Conference had over 100 attendees focused on the theme of “The Power Of Us.” Since 2017, this initiative has expanded to

include female partners from all six of our regions, an annual excess and surplus partner event, a virtual flood distribution partner forum, and input and participation from our female members of our Board of Directors.

## Promoting a more diverse workplace

Ethnic diversity in the financial services industry has been a challenge for some time. The Government Accounting Office (GAO) has studied the issue and issued several reports about Black, Latino, and Asian populations in the industry, including one issued in February 19, 2019 entitled, “FINANCIAL SERVICES INDUSTRY, Representation of Minorities and Women in Management and Practices to Promote Diversity, 2007-2015.” Selective has found that its overall ethnic demographics are similar to those the GAO has found nationally, and that there are some geographic differences. For example, Selective was founded in 1926 in Sussex County, New Jersey, where its headquarters have remained located. The U.S. Census estimated in July 2018 that Sussex County’s population was 93.5% White, 2.5% Black, 2% Asian and 2% Other. Despite that inherent challenge, many employees or candidates who join Selective at our headquarters live outside Sussex County and our work force demographics are more diverse than the local population. Selective’s ethnic diversity for officers and non-officers is approximately the same and consistent with national financial service averages, with just over 80% of our work force being White and just under 20% being a combination of Black, Latinos, and Asians.

Selective is actively committed to making our workforce more diverse and has identified programs and implemented practices that achieve that end, including mandating that management have diverse candidate pools and diverse hiring interviewing panels for all positions. We also have taken steps to ensure that we have more diversity in first-level management positions to ensure that we have diverse candidates for management promotion.



**EMPLOYEES**



## SELECTIVE'S DIVERSITY & INCLUSION "D&I" COUNCIL:

The D&I Council reflects our belief that building a culture centered around diversity and inclusion is a business imperative for maintaining a talent advantage. Members of the D&I Council include employees and senior leaders from different departments and offices across our footprint. The mission of our D&I initiative is to promote a culture of diversity and inclusion where all individuals feel respected, are treated fairly and have an opportunity to excel in their

chosen careers so they can enhance key business strategies, drive superior business results, and build us a sustainable competitive advantage. To that end, the council helps facilitate events, focus groups and seminars to solicit input and ideas around strategy, empowerment, recruiting, personal growth, and inclusion. In 2019, on the councils' recommendation to the company, a paid floating holiday was implemented for employees to use on a cultural or religious holiday that isn't a Selective paid holiday. Examples include holidays such as Good Friday, Passover, Rosh Hashanah, Columbus Day and Diwali, to name a few. The council felt that this helps our employees meet their unique cultural and religious needs while gaining an understanding of other cultural and religious observances.



**EMPLOYEES**



### **Agency diversity program**

In 2019, Selective continued to partner with one of the nation's top experts in consumer trends and generational differences, to provide a workshop for our agency partners focused on New Demographics. We set clear objectives about diverse agency appointments, including implementing actions for each region to prospect diverse agencies as part of our overall agency appointment strategy. We also entered our fifth year as members of the IIABA Diversity Council, specifically supporting the Level Up Agent Summit scheduled for January 2020.

### **Supplier diversity program**

Selective is committed to providing opportunities for diverse suppliers to compete for our goods and services vendor business. Our supplier diversity program is designed to engage the best suppliers who share our values of trust, integrity, inclusion, and service excellence. The vendor diversity program includes minority-owned enterprises, veteran-owned enterprises, and women-owned enterprises.



## **EMPLOYEES**



# SERVING OUR CUSTOMERS RESPONSIBLY

Customer-centricity is core to Selective. For us, insurance is more than simply a contract to pay a covered claim – it is an opportunity to strengthen the financial well-being of our customers. Engaging our customers with empathy, and paying covered claims promptly and appropriately are core values and business disciplines for us. Our customers and distribution partners regularly recognize our claims team for outstanding service. Across our footprint, we have 75 safety management personnel who provide customers with insights on how to mitigate losses and make their operations safer. Our exceptional customer service has been regularly recognized by our distribution partners, who consistently rank us among the highest service-oriented carriers in the industry.

## HIGHLIGHTS

- 24%** of all policies utilize digital self-service capabilities
- 40%** reduction in opioid prescriptions 40% from 2016 to 2019 through our claims model

### Awards include:



“National Company of Excellence” – National Association of Professional Insurance Agents



“All-Star Carrier” – Insurance Business America’s Brokers on Carriers Survey



“2019 Innovation Award” – Business Insurance for Selective® Drive

**73.9** Overall agent net promoter score

**8.8/10** Overall Satisfaction (OSAT) score based on an independently administered 2019 survey

**64.3** Claims organization net promoter score and OSAT of 8.7

### Loss mitigation customer communications:

**18K** vehicle recall notifications

**882K** weather preparation guides

**96K** messages sent to customers for 11 food/product recalls



## **AN OMNI-CHANNEL APPROACH TO ENHANCING THE CUSTOMER EXPERIENCE.**

We are investing heavily in technologies and capabilities required to meet and exceed evolving customer expectations. Our objective is to build an omni-channel platform for customer engagement, enabling them to interact with us in the manner and time of their choosing. We believe our investments in delivering a superior customer experience will be a true differentiator in the marketplace – enhancing our servicing capabilities as well as ability to respond promptly and efficiently.



**CUSTOMERS**

# CONTINUING TO ENHANCE CLAIMS TECHNOLOGIES AND DRIVE NEW INITIATIVES

Selective takes great pride in paying covered claims promptly, appropriately, and efficiently. We have continued to invest in claims technologies that enhance efficiencies and increase the ease of doing business for our customers. Some of our recent initiatives in this arena include the introduction of EZ Claim Write and SWIFTClaim® Fast Tracking, which allows customers to file first notice of loss by uploading pictures through a mobile application.

In addition to the claims technologies we have in place, we also have expanded our first notice of loss internal operating hours. We opened our Western Service Center in Scottsdale, Arizona, which allows us to expand telephony and claims first notice of loss services across our expanded geographic footprint. We also completed the build-out of our Command Center to oversee customer experience and claims volumes during severe weather, and manage resources in our Richmond service center. All these initiatives help improve customer experience and our ability to respond to them promptly.

## The Selective claims advantage: Workers Compensation

The Selective claims model is designed to drive efficiency and effectiveness through a specialized approach to Workers Compensation claim handling. We offer a robust Return to Work Program with centralized claim handling co-located with our telephonic Nurse Case Managers, allowing for consistency in execution and enabling customers to return to work earlier. The Strategic Case Management Unit is responsible for cases identified for the possibility to exceed \$100,000 in medical expenses and uses an escalation risk model to identify high exposure cases early and round-table them with a Medical Director.

## Robust pharmacy and narcotic management program

Our claims advantage also includes specialized pharmacy, narcotic management, and nurse triage programs:

- Dedicated Pharmacy Consultant
- Drug utilization reviews
- Customized drug formulary
- Medication monitoring programs
- Weaning assistance programs
- Opiate detoxification and rehabilitation programs

## Nurse triage program

- Staffed 24/7/365 with registered nurses
- Timely and appropriate treatment
- Integrated reporting with the claim service center to reduce reporting lag
- 99% employee satisfaction
- Access to preferred providers
- Lower average cost per claims
- Reductions in medical only and indemnity claims



**CUSTOMERS**

## Raising awareness of flood perils:

Selective is one of the five largest Write Your Own writers of flood insurance through the Federal Emergency Management Agency (FEMA's) National Flood Insurance Program (NFIP). We provide NFIP flood insurance for both personal and commercial properties in all 50 states. Flood has been one of the major perils causing loss of property and livelihood, but it often is among the least appreciated threats. According to FEMA, approximately 25.8 million people (or 8% of the U.S. population) were affected by Hurricanes Harvey, Irma and Maria in 2017. Because of the number of properties at risk, FEMA has established a "moonshot goal" to double the number of properties covered by flood insurance by 2022. Selective is committed to raising awareness of the threat posed by flood and helping mitigate the risk for customers.

## MAKING OUR COMMUNITY AND CUSTOMERS SAFER

At Selective, the safety and well-being of our customers is our top priority. We strive to help customers prevent losses before they can occur. Over the past two years, we've embarked on a large initiative to be able to proactively send customers notifications and alerts that can help identify and mitigate loss occurrence and provide them with tools and technologies to make them safer. Among the communications we've sent to our customers in collaboration with our distribution partners are:

### Vehicle recall notifications:

Our vehicle Recall Alert System helps customers reduce the time between recall and repair. Notifications sent to customers and distribution partners include vehicle make, model and model year that matches National Highway Traffic Safety Administration (NHTSA) information about potentially dangerous recalls, including the reasons for the recall, steps the auto manufacturer has taken to resolve the issue(s), and steps to address the safety hazards.

### Weather preparation guides:

For large winter storms, tropical storms and hurricanes, our electronic notifications include guides on structural improvements, roof and drainage, and preventing plumbing from freezing or clogging. These guides help reduce losses and keep our customers safe.

### Food and product recall notifications:

We are able to target messages to customers with food manufacturing, distribution or preparation businesses about disease outbreaks and product recalls. These proactive messages help reduce the likelihood of sickness and contagion.



**CUSTOMERS**



# SEEKING TO MITIGATE THE RISK OF DISTRACTED DRIVING

Reducing the risk of distracted driving from cell phone and other device use has been a high priority for us. In late 2018, we began rolling out our Selective®Drive product to customers with commercial automobile fleets so they can better manage transportation logistics and monitor driving behaviors. The phone-based application is offered to our customers as a complementary risk management device and transmits driving data about sharp braking, turns, speeding, location, and cellphone usage, including whether there was texting while the vehicle was in motion. While it is still too early to gauge the impact of this product on customer loss experience, broader use of this technology will help increase awareness of poor driving habits. Selective received the 2019 Innovation Award from Business Insurance for Selective®Drive, acknowledging our leadership, ingenuity, and inventiveness within the risk management community. We have worked with End DD, an organization focused on research and raising awareness among youth around the risk of distracted driving.

## ENSURING THE SAFETY OF OUR CUSTOMERS

Selective has a number of initiatives in place that proactively promote customer safety. Our field model provides a wide range of front-line safety management services focused on improving the safety and risk management programs, loss experience, and retention of our Standard Commercial Lines insureds. Our service mark for these services is “Safety Management: Solutions for a safer workplace.”<sup>SM</sup> Our services include:

- Risk evaluation and on-site improvement surveys that evaluate potential exposures and provide solutions for mitigation;

- Internet-based safety management educational resources, including a large library of coverage-specific safety materials, videos and online courses, such as defensive driving employee educational safety courses;
- Thermographic infrared surveys aimed at identifying electrical hazards; and
- Occupational Safety and Health Administration construction and general industry certification training.

Our locally-based safety management personnel regularly visit customers and prospective accounts. They provide advice on risk mitigation for perils such as property damage as well as liability risks, including how to avoid abuse claims. We insure many social service organizations, such as schools, churches and human services agencies that provide services for developmentally disabled, counseling operations, and senior citizen programs. Our partnership with Praesidium, a sexual abuse prevention risk management consultancy firm, offers customers unique solutions aimed at preventing and mitigating abuse or molestation exposure. We have also partnered with Security Mentor®, which provides our insureds and distribution partners with on-line training on the importance of cybersecurity defenses and risk mitigation for data and privacy breaches.

## EMERGING RISKS

As part of our Enterprise Risk Management function, we regularly review emerging risks and threats to our customers, communities, distribution partners, and employees. The list of emerging risk issues is constantly evolving, and examples include cybersecurity, legalization of cannabis (marijuana and hemp), terrorism, wildfire exposure, and legal/tort developments.

We review these risks to determine their potential impact on our coverages and exposures, as well as how our safety management experts can help reduce or mitigate them. For example, we have taken a position not to underwrite marijuana businesses, in part because federal law still classifies the drug as a Class 1 narcotic and in part because of the impact on impaired driving. Through our claims unit, we seek to help minimize the potential for addiction to opioids for injured workers compensation claimants.



**CUSTOMERS**





# HELPING THE COMMUNITY

Our success is based, to a large extent, on the strength and well-being of the communities in which our employees live and work. We align ourselves with philanthropic programs that help achieve these objectives, support organizations through our Foundation, and provide opportunities for our employees to volunteer and contribute to the enhancement of the larger community.

## HIGHLIGHTS

- ✓ Significant financial commitments and investments related to the infrastructure and revitalization of Branchville, New Jersey — where our corporate headquarters is located;
- ✓ \$468K in annual donations made through the Selective Foundation to support local and nationwide charities in 2019;
- ✓ Strong support for a wide range of employee volunteer initiatives where our offices are located; and
- ✓ 2,116 volunteer hours logged by employees in 2019.

# TARGETED INVESTING TO VITALIZE OUR COMMUNITIES

Selective is committed to investing in the future of the communities in which we operate. We believe that by strengthening our communities, we help ensure our long term success.



## Investing in Branchville, New Jersey:

As the largest employer in the Borough of Branchville, we believe it is important to support the community. In 2019, we bought the original Selective headquarters building that had been vacant for several years. We plan to renovate it into a private conference center that will house visiting guests and employees. As the central building in the downtown area, we hope its redevelopment will attract investment and more businesses to expand in or move to Branchville. We also assist in the Borough's economic development and community improvement efforts, including developing and donating to a new municipal website [www.branchville.us](http://www.branchville.us).

## Other infrastructure investments:

Over the last four years, we have invested over \$1 million in enhancing utility infrastructure for our headquarters and the surrounding community. As the owner of the largest buildings in Branchville, our commitment to convert our furnaces from oil to natural gas was a predicate to the installation of natural gas lines throughout the Borough - as was also the case with our commitment to decommission our septic plant to the installation of sewer lines. These significant investments will benefit the environment and economic vitality of our Branchville community.

## Other investments:

Selective invests in indirect state and federal incentives to finance programs with social benefits or objectives. Examples include investments in low-income housing tax credits, historic property credits, rural investment programs, economic redevelopment credits, renewable energy credits, and scholarship tax credit programs. Selective has been participating in and making significant investments in these types of programs since 2008.



COMMUNITY

# EMPLOYEE VOLUNTEERING INITIATIVES

Selective is committed to fostering an environment for our employees to volunteer and support philanthropic organizations of their choosing. We provide employees with a paid day off each year to volunteer, with over 2,116 hours logged in 2019.

## 2019 VOLUNTEERING ACTIVITIES INCLUDED THE FOLLOWING:

### In Branchville and other NJ offices:

- Branchville employees volunteered for Project Self-Sufficiency, an organization focused on providing services to Sussex County, New Jersey, families in need, with which Selective has partnered closely for over 30 years. In 2019, employees participated in annual events such as the Season of Hope Toy Drive, which includes helping to organize a toy “shop”, building and donating bicycles and other toys, and the annual Thanksgiving Food Drive.
- Branchville employees volunteered at BARKS, a local animal rescue, to help assemble a storage shed, clean up the exterior grounds, and help them prepare for their annual Garage Sale fundraiser.
- Our Actuarial team members in Branchville helped Lusscroft Farm in Wantage, New Jersey, prepare for their annual Lusscroft Day by weeding, setting up the farm’s July Christmas shop, and helping clean the shops in the barn.
- Branchville employees volunteer annually for the annual spring clean-up at Camp Nejeda, a camp for youth with diabetes.
- “Team Selective” employees from our New Jersey Region Hamilton office participated in the annual NJYIP Fun Run, benefitting the Special Olympics New Jersey

- New Jersey Region employees volunteered by cleaning the grounds at Project Freedom, a non-profit in Hopewell, New Jersey, that develops and operates barrier-free housing to enable individuals with disabilities to live independently.
- Our Staff Counsel employees in East Hanover, New Jersey, participated in the Northern New Jersey 2019 Heart Walk for the American Heart Association at the South Mountain Reservation in West Orange, NJ.

### In the Mid-Atlantic Region:

- Our Horsham, Pennsylvania, office employees volunteered at the Elmwood Park Zoo in Norristown, Pennsylvania, to get them ready for their annual fundraiser. They strung up lights and put tables together for the zoo’s Beast of a Feast event.
- For three days, employees in our Horsham, Pennsylvania, office volunteered by collecting and wrapping gifts for the Kisses for Kyle Foundation, which offers a variety of services to families fighting childhood cancer in the Delaware Valley.
- Employees from our Hunt Valley, Maryland, office used their volunteer day to lend a hand at the YMCA in Shrewsbury, Pennsylvania, landscaping the grounds, planting, and mulching.
- Our Allentown, Pennsylvania, employees volunteered with the Second Harvest Food Bank in Nazareth, Pennsylvania, which distributes food to low-income seniors in the Lehigh Valley



COMMUNITY

and Northeast Pennsylvania. In the spring, they helped pack boxes of food staples, and in the fall, they spent the day organizing pallets and assembling 1,600 boxes of Thanksgiving Day dinners.

#### **In the Southwest Region and Service Center:**

- Employees from our Scottsdale, Arizona, office volunteered to help spruce up Clark Park Gardens in Tempe, spending the day weeding, raking, rock removal, and other gardening activities. The gardens help supply fresh produce to the local farmer's market and food pantry.
- Scottsdale office employees used a volunteer day to help out at the Phoenix Zoo, where they worked with the zoo's Horticulture Department to clean up piles of cattails that had been pulled from the lake where the pelicans reside. They also raked up leaves and plant debris from the flower beds in that area.
- Employees used their Employee Appreciation Day to volunteer at St. Mary's Food Bank in Phoenix, packing meal boxes, loading shopping carts with groceries, and wheeling carts full of food items to the recipients' vehicles for unpacking.
- Scottsdale and Western Service Center employees volunteered at St. Vincent de Paul's Food Warehouse in Phoenix to sort through and organize canned food drive bins.
- Employees from the Service Center and Customer Experience teams spent a day volunteering at FeedMore Kitchen, Central Virginia's core hunger-relief organization. They assembled, sealed, and boxed meal packets for their Meals on Wheels program.

#### **In the Southern and Heartland Regions:**

- Employees in the Charlotte, North Carolina, office volunteered by sorting and packing food donations at Loaves & Fishes, an organization providing food to families in need.
- Employees in the Charlotte office also volunteered and donated items to Charlotte Mecklenburg Animal Care & Control, an organization committed to protecting the safety of citizens and animals within the community.
- Charlotte office employees participated in the 25th Annual American Heart Association Heart Walk in Uptown Charlotte. The walk was a three-mile loop between two of Charlotte's many urban parks to help raise funds and awareness for cardiovascular diseases and stroke.
- Employees in the Heartland Region participated in The Walk to End Alzheimer's in downtown Indianapolis, Indiana.

#### **In Glastonbury, CT:**

- Glastonbury employees volunteered at Elizabeth Park Conservancy in West Hartford to help prepare flower beds for the summer at what is known to be the nation's oldest public rose garden.
- Interns from our Glastonbury office helped two non-profit organizations. Half the group volunteered at Habitat for Humanity ReStore, where they helped unload, move, and organize merchandise used to help businesses, contractors, and community members help build homes. The other half volunteered at Westmoor Park to plant a garden for the park's Plant a Row for the Hungry program, which is a national public service campaign to get communities to plant and grow organic vegetables and herbs. The produce grown through the program at Westmoor Park is donated to a local shelter in Hartford, CT, as well as the senior centers in town.



**COMMUNITY**

# SUPPORT THROUGH THE SELECTIVE FOUNDATION

The Selective Foundation's mission is to provide grants to not-for-profit, 501(c)(3) organizations that provide health and human services, promote civic responsibility, and support home, auto, and business safety in the communities in which we serve and operate. The Foundation makes donations directly to selected organizations, including hospital foundations and other human services organizations, various land and nature conservancies, and local fire, police, and rescue organizations. Donations from the foundation totaled \$510K in 2018 and \$468K in 2019. In addition, the Foundation also matches up to \$500 donations to qualifying organizations from employees and President's Club agents.

## Organizations supported in New Jersey include:

- Project Self Sufficiency
- The Newton Medical Center Foundation
- Morristown Medical Center Foundation
- Karen Ann Quinlan Hospice Foundation
- Pass it Along
- The Sussex County Y
- United Way of Northern NJ
- American Red Cross

## Organizations supported in our regional offices include:

- The Brigrance Brigade Foundation (Maryland)
- Battle Borne (Pennsylvania)
- Canyon Rim Academy (Utah)
- Joy's House (Indiana)
- St. John's University (New York)

## Events supported in our corporate headquarters

We provide our office premises, along with food and facilities support, for several events for local non-profit organizations in Branchville, New Jersey – in support of their fundraising efforts. Some of these include the American Red Cross and the SCARC Roundtable.



COMMUNITY



# BUILDING A CULTURE OF STRONG GOVERNANCE

We are committed to being an excellent business partner to our distribution partners and customers while holding ourselves to the highest ethical standards. We have a robust set of anti-corruption and ethics policies. We provide online interactive or in-person mandatory training on, among other topics, our Code of Conduct, Practical Ethics in the Workplace, and Understanding and Preventing Sexual Harassment. We have a Sustainability Committee comprised of a group of employees and leaders from across the organization that is tasked with making specific recommendations on environmental, social and governance initiatives, with oversight from senior management and Selective's Board of Directors.

## HIGHLIGHTS

- ✓ Sustainability Committee responsible for developing plans, objectives, and reporting around ESG initiatives
- ✓ A Code of Conduct setting legal and ethical standards
- ✓ Reporting methods for suspected Code of Conduct violations
- ✓ Stringent Privacy and Data Security Policies
- ✓ Technology to safeguard information and systems
- ✓ Independent Board Oversight

## A STRONG COMMITMENT TO SUSTAINABILITY FROM MANAGEMENT AND THE BOARD

We have a Sustainability Committee composed of employees and leaders from around the organization. It is responsible for developing plans and objectives around environmental, social and governance initiatives, with oversight from senior leadership and the Board of Directors. The committee is tasked with objectives including:

- Making ongoing recommendations for sustainability initiatives to senior management and the Board, and setting longer-term goals;
- Partnering with internal committees and organizations to bring thought leadership on sustainability issues, and implement targeted programs;
- Helping raise company-wide and external awareness around the importance of sustainability; and
- Monitoring and regularly reporting on progress to senior leadership and the Board of directors.



**GOVERNANCE**

## OUR CODE OF CONDUCT

Selective has adopted a Code of Conduct that provides a set of legal and ethical standards for our employees to maintain. At Selective, we use our Code to enforce some of our core attributes by:

- Identifying the steps to be taken when faced with a possible or actual Conflict of Interest;
- Providing various resources to report actual or suspected acts of unethical or illegal conduct; and
- Mandating ethical business conduct among all staff and board members.

Failure to acknowledge policies and complete related training can result in immediate termination of access to our company's systems. Our policy acknowledgment and training programs include:

- Conflict of Interest Policy and Disclosure Form
- Code of Conduct
- Insider Trading Policy
- Workplace Safety and Security Policy
- Expense Policy Handbook
- Written Information Security Program
- Records and Information Management Policy

### Reporting suspected Code of Conduct violation:

All Selective employees and Board members are encouraged to raise any suspected Code of Conduct violation or any concern they may have. We allow these concerns to be channeled through the following confidential or discrete methods:

- Reporting through our Ethics and Compliance Helpline by voicemail or web form, which is monitored by the General Counsel and Chief Compliance Officer, the Chief Audit Executive, and the Chairman of the Audit Committee of the Board of Directors; and
- Directly contacting our General Counsel and Chief Compliance Officer, Chief Audit Executive, Audit Committee Chair, or Chief Human Resources Officer.



**GOVERNANCE**



## SECURING OUR BUSINESS

Selective's Corporate Ethics and Compliance Program's Privacy and Data Security Policy provides baseline standards for the protection of both personal information and corporate sensitive information. Selective implements these standards without limitation, through:

- Comprehensive information security policies, standards, and procedures that are subject to ongoing testing, self-assessment, and revision, including periodic review by our internal audit department and input from third-party experts;
- Designated individuals in senior roles who lead our data security team;
- Technology that is intended to help safeguard information and systems, and monitor events;
- Mandatory employee training, testing and awareness programs;
- Active monitoring of data security risks by our enterprise-wide risk management group and senior leadership team; and
- Robust initial assessment of third party vendors' information security practices, and ongoing periodic security assessment and risk mitigation initiatives for third-party hosted applications.



## GOVERNANCE

# GOVERNANCE BEST PRACTICES

The Board and Management regularly consider best practices in corporate governance and shareholder feedback and modify our governance policies and practices as warranted. Our current best practices include:

## Independent oversight

- Majority (79%) Independent Directors;
- Independent Key Committees; and
- Strong and Engaged Independent Lead Director.

## Engaged board / shareholder rights

- Directors elected annually;
- Majority voting policy;
- No over-boarding issues;
- Nomination age limit of 75 for election; and
- 75% minimum attendance is required.

## Good governance

- No poison pill;
- Adoption of incentive-based compensation recoupment policy;
- Stock ownership guidelines for directors and senior officers;
- Prohibition on hedging company stock by officers, directors, and employees;
- No excise tax gross-ups in employment agreements; and
- Board and governance committees review political expenditures.



**GOVERNANCE**

# EXECUTIVE COMPENSATION / SALARY & EMPLOYEE BENEFITS COMMITTEE

Since our initial say-on-pay proposal in 2011, our stockholders have overwhelmingly supported our compensation decisions. At our 2018 Annual Meeting of Stockholders, over 97% of votes cast by our stockholders on an advisory basis approved the compensation of our named executive officers. We considered these results and, in light of our stockholders' indicated support for our compensation decisions, did not make any material changes in our compensation decisions and policies. We have continued to maintain our emphasis on providing a combination of both short-term and long-term incentive compensation, which we believe rewards our executives for delivering stockholder value.

## Executive compensation program

Our compensation program is designed to (i) reward the achievement of our business objectives through the execution of our Strategic Business Plan Framework and its five strategic imperatives, (ii) recognize our executives for their individual achievements

by motivating them to execute their duties and responsibilities in a manner not reasonably likely to have a material adverse effect on our operations or results; and (iii) promote and align both short- and long-term interests of our executives with those of our shareholders. We aim to provide these highly talented and qualified executives with compensation that is competitive, both in value and mix of short-term and long-term cash and stock-based components, with the total compensation paid by other property and casualty insurance companies and other companies with which we compete for executive talent.

Consistent with our pay-for-performance philosophy, we link our annual incentive awards to pre-determined financial and strategic business objectives and individual contributions, and we align our long-term compensation to the achievement of pre-determined specific performance measures that impact the generation of long-term stockholder value.

## Role and function of the Salary and Employee Benefits Committee

The Salary and Employee Benefits Committee of the Board of Directors ("SEBC") oversees executive compensation. The SEBC retains an independent executive compensation consultant, Exequity LLP ("Compensation Consultant"), to advise it on executive and director compensation issues. Compensation Consultant representatives: (i) review senior executive compensation; (ii) prepare comprehensive competitive compensation analyses for our NEOs; (iii) provide counsel to the SEBC regarding award metrics, components of compensation, amounts allocated to those components, and the total compensation opportunities for the CEO and the other NEOs; and (iv) attend SEBC meetings, as requested by the SEBC.

The Compensation Consultant has advised the SEBC since 2007. The Compensation Consultant does not provide any services to Selective other than to advise the SEBC on executive and director compensation matters. Based on applicable SEC and Nasdaq rules, the SEBC has determined that the Compensation Consultant's services do not raise a conflict of interest.



**GOVERNANCE**



# MITIGATING ENVIRONMENTAL RISK

We strive to create a sustainable workplace for our employees, our community, and our planet, with an objective towards preserving our environment for future generations. As a property and casualty insurance company, we understand the risks posed by climate change and seek to mitigate catastrophe risk for our customers and shareholders through prudent exposure management, underwriting initiatives, and proactive notifications. Our efforts at environmental preservation include capital allocation through our underwriting and investment functions by restricting or eliminating exposure to classes of business considered particularly harmful to the environment. We also take every opportunity to reduce our use of natural resources and reuse or recycle the products that we consume.

## HIGHLIGHTS

- ✓ We do not underwrite environmentally hazardous classes of business such as coal mines, thermal coal plants, or oil sands extraction.
- ✓ Investment policy statement was updated effective January 1, 2020 stating that Selective will not make any new direct debt or equity investments in companies that generate more than 30% of their revenues from thermal coal mining or energy production from coal.
- ✓ Catastrophe loss mitigation efforts include a robust enterprise risk management framework that models and aggregates catastrophe risk and has strong oversight from senior leadership and the Board of Directors
- ✓ Placed into service a solar farm at our corporate headquarters in Branchville, NJ, generating 4 million kWh of power annually
- ✓ Invested in energy-efficient LED lights for the corporate headquarters and regional offices, and reduced water usage through the installation of automatic plumbing fixtures
- ✓ Recycle approximately 269K lbs of co-mingled recyclables each year or 134 tons of recycled materials; eliminated the use of Styrofoam products in the Branchville cafeteria

## PLAYING OUR PART IN ADDRESSING CLIMATE CHANGE:

Climate-related risks are among the most serious threats facing our local communities and the world at large. Greater unpredictability of catastrophic events creates the potential for significant losses. We have focused our environmental efforts through catastrophe loss mitigation efforts for our customers, managing our own catastrophe risk aggregations, and allocating capital in underwriting and investing. While Selective is not a meaningful emitter of greenhouse gases (GHGs) as part of our day-to-day business, we nevertheless seek to actively reduce our own carbon footprint through environmental initiatives, including reducing our use of natural resources, and increasing our energy efficiency and recycling of waste materials.



## ENVIRONMENT

### Underwriting initiatives:

From an underwriting perspective, we tend to primarily be a writer of low- and medium-hazard small- and mid-market commercial lines risks. We have extremely limited exposure to environmentally hazardous classes. We do not underwrite risks related to coal mines and thermal coal plants, or oil sands extraction and related pipeline projects.

### Investment initiatives:

We have incorporated environmental, social and governance factors into our investments framework, and have updated our investment policy statement to include the following: Selective's primary investment objective is to maximize after-tax net investment income and the total return of the Company's investment portfolio, subject to interest rate, credit, liquidity, and other risk considerations. In that effort, we recognize the importance of utilizing ESG factors in the management of our investment portfolio, and believe employing these attributes into our investment analysis provides an enhanced assessment of the risks and considerations associated with an investment decision. Further, we expect our third-party investment managers to integrate ESG factors into their investment process for companies in industries where appropriate, and consider these risks when assessing the expected risk and performance of our investments. As with other portfolio related risks and exposures, Selective will regularly evaluate and discuss our ESG positioning and risk attributes internally and with our third-party investment managers. In addition, effective January 1, 2020, Selective will not make any new direct debt or equity investments in thermal coal enterprises, including companies that generate 30% or more of their revenue from the ownership, exploration, mining, or refining of thermal coal, or generate 30% or more of their electricity generation from thermal coal.

### Solar energy facility placed into service in 2019:

Selective owns a ground mount solar photovoltaic facility at our corporate headquarters that was constructed and placed into service during 2019. The solar installation is set on nine acres of Selective's campus and is one of the largest in Northwest New Jersey. The facility consists of 7,470 LG 400 Watt solar panels, and generates 4 million kWh of electricity annually, equating to the amount required to power up to 800 homes a year. If fossil fuels were used to produce the same amount of electricity, an estimated 2,819 metric tons of carbon dioxide would be released – equivalent to the annual emissions from 599 passenger vehicles.

# REDUCED ENERGY USE AND HIGHER EFFICIENCY

- We continue to install energy-efficient LED light bulbs in our corporate headquarters, and we have invested approximately \$356K to this effort so far. We expect to gain approximately 500,000 kWh of efficiency per year, with an estimated 1M kWh of energy saved when the Branchville facility is 100 percent LED enabled, expected by 2022. We have also invested in LED lighting upgrades and occupancy sensors at some of our field offices through tenant improvement allowances negotiated in new leases.
- We have reduced our water usage through the installation of automatic plumbing fixtures.
- We make an effort to buy appliances and office machines that are Energy Star® rated. We run our facilities on natural gas instead of oil, which is less efficient. Our HVAC system has a free cooling system that uses economizers instead of always using air conditioning.



**ENVIRONMENT**

## MATERIAL USE AND WASTE MANAGEMENT

Selective aims to reduce dependency on products and processes that can negatively impact our environment. We have reduced chemical usage in our cleaning products and decreased paper usage in our corporate offices and for our insureds through initiatives such as Paperless Policy, Paperless Billing, and Electronic Records Management. We also have eliminated sprinkler usage for our landscaping and have electronic faucets throughout our headquarters.

### Materials recycling

As part of Selective's company-wide comprehensive program, we recycle approximately 269K lbs of co-mingled recyclables each year or approximately 134 tons of recycled materials.

### Reduced use of Styrofoam and plastic

In 2019, we eliminated all use of Styrofoam products in our Branchville cafeteria, reducing usage from a peak of approximately 7K lbs per year. We also plan to significantly reduce the use of plastics in our cafeteria and around our campus.

### Information technology: Increased recycling and more efficient energy usage

Selective is committed to ensuring that all our unwanted electronic equipment is properly recycled. Selective works with a number of technology recyclers who adhere to the most stringent environmentally and socially responsible practices when recovering hazardous electronic materials. Data security and privacy is our utmost concern. Our electronics recycling program considers data security and securely and responsibly disposes of equipment.

Our IT Department has accelerated the Data Center Virtualization initiative, decreasing power consumption and increasing the efficiency of our data center while maintaining industry-leading security standards. Security and efficiency are our two primary goals while handling customer information. Hardware and software updates are performed periodically to optimize the performance and security of our environment.



**ENVIRONMENT**

# STRONG ENTERPRISE RISK MANAGEMENT FRAMEWORK

As a property and casualty holding company, our Insurance Subsidiaries are in the business of assuming risk. We view climate change and associated catastrophe risks as among the most serious ones impacting the financial position of the company, and have a strong Enterprise Risk Management (ERM) framework to assess, model and help mitigate the risk.

## ERM function

Our ERM framework is designed to identify, measure, report, and monitor our major risks and develop appropriate responses to support the successful execution of our business strategy. Our ERM unit is part of an internal control framework that operates with three lines of defense.

1. Individual functions that deliberately assume and manage risk on a day-to-day and business operational basis
2. A dedicated ERM team led by the Chief Risk Officer, reporting to the Chief Financial Officer
3. Internal Audit – which provides independent, objective assurance as to the assessment of the adequacy and effectiveness of our internal control environment

## Risk oversight

Executive Risk Committee (ERC): The ERC uses various management committees for detailed analysis and management of specific major risks. The ERC primarily consists of the Chief Executive Officer, his direct reports, the Chief Risk Officer, and key operational leaders who are each responsible for risk management in their respective area.

Board of Directors: Our Board oversees our enterprise risk management process and sets our overall risk appetite, while the ERC is responsible for the holistic evaluation and supervision of our aggregated risk profile and determination of future risk management actions in support of overall risk appetite. In addition, various committees of the Board oversee risks specific to their areas of supervision and report their activities and findings to the full Board.

### BOARD OF DIRECTORS

- Diversified backgrounds with strong insurance and financial expertise
- Overall risk oversight, with responsibility for individual risks handled by dedicated committees



### EXECUTIVE RISK COMMITTEE (ERC)

- Consists of CEO and direct reports/CRO; all functions represented
- Responsible for ERM, with specific risks managed by various management committees



### ERM UNIT

- Led by Chief Risk and Reinsurance Officer (CRO); reports to the CFO
- Responsible for identifying, monitoring and reporting key risks to the ERC and Board



**ENVIRONMENT**



# CATASTROPHE RISK MANAGEMENT

The ERM function has responsibility for modeling and monitoring catastrophe risk, including ongoing assessment of our catastrophe risk within our predetermined limits. Our underwriting and risk management framework employs risk mitigation tools including:

1. Setting underwriting guidelines;
2. Implementing limits, deductibles and exclusions; and
3. Risk-sharing through reinsurance programs.

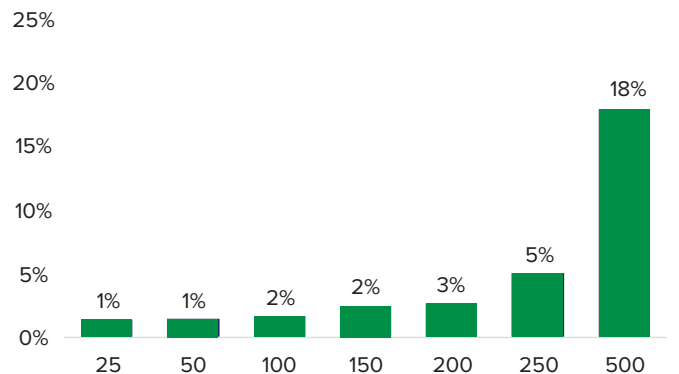
Although we model various catastrophic perils, due to our geographic spread and business risk profile, hurricane risk continues to be the most significant natural catastrophe peril to which our portfolio is exposed. We use the results of a third-party vendor model and proprietary analysis in our review of exposure to hurricane risk. The third-party vendor model provides a long-term view that closely relates modeled event frequency to historical hurricane activity and is adjusted to reflect assumptions for certain unmodeled costs, such as the impact of loss expenses, residual market assessments, and automobile-related losses. We believe that modeled estimates provide a range of potential outcomes and we review multiple estimates for purposes of understanding our catastrophic risk. Our current catastrophe reinsurance program exhausts at approximately 1-in-217 year return period. As the data indicates, we manage catastrophe risk conservatively, limiting our net exposure even to a 1-in-250 year (0.4% probability of exceedance) hurricane event to less than 5% of our equity capital.

Our modeled results for hurricane on a net of reinsurance basis and the compliance status with our risk tolerance are included in our Reinsurance Risk Scorecard, which is produced quarterly and reported to the executive risk committee and the Board of Directors. In addition, we take our catastrophe model outputs and use them in our Economic Capital Model, which stochastically models the top risks that we face as an insurance company. Our CAT risk mitigation initiatives include:

1. Quarterly monitoring of hurricane tail event stress scenarios to assess the impact on surplus, GAAP equity, operational leverage, debt leverage, and capital position relative to the target and minimum capital requirements.
2. Conservative reinsurance treaty purchases to cede the excess exposures to the 3rd party reinsurers, of which most of them are high-quality companies with an average rating of A+ by AM Best.

## NET SINGLE EVENT HURRICANE LOSS\*

as Percent of Equity



\*Single event hurricane losses are net of reinsurance, after tax, and reinstatement premiums as of 1/1/20. GAAP equity as of 12/31/19.



ENVIRONMENT

**S E L E C T I V E**  
BE UNIQUELY INSURED<sup>SM</sup>