

STATE OF INDIANA )  
 ) SS: BEFORE THE INDIANA  
COUNTY OF MARION ) COMMISSIONER OF INSURANCE

IN THE MATTER OF: )  
 )  
Selective Insurance Company of South Carolina )  
11711 North Meridian Street, Suite 800 )  
Carmel, Indiana 46032 )

Examination of: **Selective Insurance Company of South Carolina**

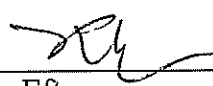
**NOTICE OF ENTRY OF ORDER**

Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of Selective Insurance Company of South Carolina, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as amended by the Final Order, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of Selective Insurance Company of South Carolina shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

3/5/2019  
Date

  
Roy Eft  
Chief Financial Examiner

**CERTIFIED MAIL NUMBER: 7005 3110 0002 4443 9896**

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Examination of: **Selective Insurance Company of South Carolina**

### FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Selective Insurance Company of South Carolina (hereinafter "Company") for the time period January 1, 2013 through December 31, 2017.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on October 30, 2018.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on January 17, 2019 and was received by the Company on January 23, 2019.

On February 20, 2019, pursuant to Ind. Code § 27-1-3.1-10, the Company filed a response to the Verified Report of Examination. The Commissioner has fully considered the Company's response.

NOW THEREFORE, based on the Verified Report of Examination and the response filed by the Company, the Commissioner hereby FINDS as follows:

1. The suggested modifications to the Verified Report of Examination submitted by the Company are reasonable and shall be incorporated into the Verified Examination Report. A copy of the Verified Report of Examination, as amended, is attached hereto.

2. The Verified Report of Examination, as amended, is true and accurate report of the financial condition and affairs of the Company as of December 31, 2017.
3. The Examiners' recommendations are reasonable and necessary in order for the Company to comply with the insurance laws of the state of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, as amended, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination, as amended. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed this 5 day of March, 2019.

  
Stephen W. Robertson  
Insurance Commissioner

## ABOUT AFFIRMATIONS

The following pages for affirmations need to be signed by each Board Member and returned to the Indiana Department of Insurance within thirty (30) days in accordance with I.C. §27-1-3.1-12(b).

If your affirmations list individuals that are no longer on your Board of Directors, you may simply retype the form on plain white paper with the correct names and a line to the right for signature. If the names are misspelled, you may do the same, simply re-type the corrected form with a line to the right for signature.

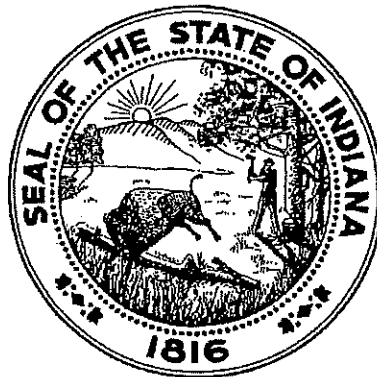
Should you have any questions or difficulties with these forms or you require additional time past the thirty (30) day requirement, please do not hesitate to contact this department at (317) 232-2390.

A large, dark, handwritten signature in cursive script, appearing to be a name like "Michael J. ...".A smaller, dark, handwritten signature in cursive script, appearing to be a name like "John ...".

**STATE OF INDIANA**  
**Department of Insurance**  
**REPORT OF EXAMINATION**  
**OF**

**SELECTIVE INSURANCE COMPANY OF SOUTH CAROLINA**  
NAIC Co. CODE 19259  
NAIC GROUP CODE 0242

As of  
December 31, 2017



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# STATE OF INDIANA

ERIC J. HOLCOMB, GOVERNOR

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## Indiana Department of Insurance

Stephen W. Robertson, Commissioner

311 W. Washington Street, Suite 103

Indianapolis, Indiana 46204-2787

Telephone: 317-232-2385

Fax: 317-232-5251

Website: [in.gov/idoi](http://in.gov/idoi)

October 30, 2018

Honorable Stephen W. Robertson, Commissioner  
Indiana Department of Insurance  
311 West Washington Street, Suite 300  
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3968, an examination has been made of the affairs and financial condition of:

**Selective Insurance Company of South Carolina**  
11711 North Meridian Street, Suite 800  
Carmel, Indiana 46032

hereinafter referred to as the "Company", or "SICSC", an Indiana domestic stock, property and casualty insurance company. The examination was conducted at the corporate offices of the Company in Branchville, New Jersey.

The Report of Examination, reflecting the status of the Company as of December 31, 2017, is hereby respectfully submitted.

ACCREDITED BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES	COMPANY COMPLIANCE	CONSUMER SERVICES	FINANCIAL SERVICES	MEDICAL MALPRACTICE	COMPANY RECORDS	STATE HEALTH INSURANCE PROGRAM
317-232-2389	317-232-3495	317-232-2395/1-800-622-4461	317-232-2390	317-232-2402	317-232-5692	1-800-452-4800

## SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI), and covered the period from January 1, 2008 through December 31, 2012. The present risk-focused examination was conducted by Noble Consulting Services, Inc., and covered the period from January 1, 2013 through December 31, 2017, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

The examination of the New Jersey domestic insurance companies of Selective Insurance Group, Inc., (SIGI) was called by New Jersey Department of Banking and Insurance (NJDOBI) in accordance with the Handbook guidelines, through the NAIC's Financial Examination Electronic Tracking System. The NJDOBI served as the lead state on the examination, and the INDOI and the New York State Department of Financial Services served as participants.

The NJDOBI staff provided all actuarial services throughout the examination and conducted a review of the Company's actuarial related risks as of December 31, 2017.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as in the Indiana Code (IC) 27-1-3.1-10 and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

## HISTORY

The Company was incorporated in October 24, 1951, under the laws of the state of South Carolina as South State Insurance Company and received a certificate of authority from the South Carolina Department of Insurance to transact the business of a property and casualty stock insurer and commenced business on January 1, 1952. SICSC became part of the SIGI holding company system on July 1, 1980, when Selective Insurance Company of America (SICA) acquired all of the outstanding shares of common stock of Selective Insurance Company of the Southeast which owned 100% of the outstanding shares of common stock of the Company. On January 2, 1986, the Company changed its name from South State Insurance Company to SICSC. On July 1, 1992, the SIGI organizational structure was changed whereby SICSC became a direct subsidiary of SIGI. Effective June 29, 1995, the Company became the surviving entity of a merger with its affiliate, Charleston Insurance Company and effective June 30, 2008, re-domesticated to Indiana from South Carolina.



## CAPITAL AND SURPLUS

The Articles of Incorporation authorize 500,000 shares of \$10 par value common capital stock. As of December 31, 2017, all of the Company's 500,000 authorized shares of common stock were issued and outstanding in the amount of \$5,000,000. SIGI owns 100% of the Company's issued and outstanding common stock.

## DIVIDENDS TO STOCKHOLDERS

The Company paid the following dividends to its parent, SIGI, during the examination period:

<u>Year</u>	<u>Total</u>	<u>Ordinary Dividends</u>	<u>Extraordinary Dividends</u>
2013	\$ 1,000,000	\$ 1,000,000	-
2014	5,000,000	5,000,000	-
2015	3,260,000	3,260,000	-
2016	5,000,000	5,000,000	-
2017	10,000,000	10,000,000	-
Total	<u>\$ 24,260,000</u>	<u>\$ 24,260,000</u>	<u>-</u>

In accordance with IC 27-1-23-4(h), the payment of dividends to holding companies or affiliated insurers may not exceed the greater of 10% of the prior year's surplus or the net income of such insurer of the prior year. Dividends paid during the examination period were ordinary in nature and did not require prior regulatory approval. In accordance with IC 27-1-23-1.5, the Company notified the INDOI of all declared dividends to SIGI during the examination period.

## TERRITORY AND PLAN OF OPERATION

The Company was licensed in the following thirty-two (32) states as of December 31, 2017:

Alabama	Massachusetts	Pennsylvania
Arizona	Michigan	Rhode Island
Colorado	Minnesota	South Carolina
Connecticut	Mississippi	South Dakota
Delaware	Missouri	Tennessee
Georgia	New Hampshire	Utah
Illinois	New Jersey	Vermont
Indiana	New Mexico	Virginia
Iowa	New York	West Virginia
Kentucky	North Carolina	Wisconsin
Maryland	Ohio	

The Company is 100% owned by SIGI. SIGI is a publicly-traded stock holding company, which through its insurance subsidiaries writes a broad range of property and casualty insurance products.

SICSC and its admitted affiliated insurance companies (the Admitted Companies or Group) provide a broad range of insurance and alternative risk management products and services to businesses, public entities, and individuals. As of December 31, 2017, the Admitted Companies distributed these products and services through approximately 1,250 independent agencies primarily in twenty-five (25) states and the District of Columbia.

In addition, Mesa Underwriters Specialty Insurance Company (MUSIC) writes excess and surplus business in all fifty (50) states and the District of Columbia through approximately eighty-five (85) wholesale agents and nine (9) wholesale brokers. The Admitted Companies have approximately 5,800 agents selling flood insurance products written under the National Flood Insurance Plan's Write Your Own program.

The Admitted Companies employ a field-based operating model that is supported by their home office in Branchville, New Jersey, and seven (7) full-service branch offices. In addition, the Group has an underwriting and claims service center in Richmond, Virginia.

The Admitted Companies' business strategy targets small and mid-sized "main street" commercial accounts. This strategy is supported by the Group's formation of strategic business units (SBUs) and regional field offices along with significant advancements in its information technology platforms, integrated systems, and internet-based applications. Under this structure, each SBU specializes in a particular market or customer class to provide better service to its customers, become more attuned to areas of opportunity, and enhance productivity. All products and services are developed through SBUs in conjunction with Agency Management Specialists (AMSs), and the branch office network. Under the Group's regional branch office strategy, agents directly interact with approximately one-hundred (100) AMSs, who live and work in the geographic vicinity of the Admitted Companies' appointed agents and act as local field underwriters to this group of agencies. AMSs are experienced underwriters who are supported by branch office and corporate underwriters and technical personnel. AMSs work closely with agencies to determine growth and profitability objectives. The Admitted Companies also utilize on-site claims adjusters known as Claims Management Specialists and Safety Management Specialists, both of which are located throughout their operating territories. The Admitted Companies utilize their field and corporate claim expertise in their claims processing emphasizes personal, local claims handling.

The Admitted Companies are committed to the independent agency system and work closely with agents and field underwriters to identify new business opportunities and to develop and market products.

**Administrative Offices**

While the primary management and financial reporting activities are conducted from the home office in Branchville, New Jersey, the Admitted Companies maintain other regional offices and processing locations, including the following, as of December 31, 2017:

<u>Region</u>	<u>Office Location</u>
Heartland	Carmel, Indiana
New Jersey	Hamilton, New Jersey
Northeast	Branchville, New Jersey
Mid Atlantic	Allentown, Pennsylvania and Hunt Valley, Maryland
Southern	Charlotte, North Carolina
Southwest	Scottsdale, Arizona
Excess & Surplus	Horsham, Pennsylvania and Scottsdale, Arizona

## GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company during the examination period:

Year	Admitted Assets	Liabilities	Surplus and Other Funds	Premiums Earned	Net Income
2017	\$647,971,812	\$503,878,145	\$144,093,667	\$206,192,403	\$17,927,432
2016	644,936,203	503,081,233	141,854,970	193,461,475	17,396,093
2015	594,271,581	466,415,373	127,856,208	179,091,825	15,864,281
2014	564,330,505	449,223,674	115,106,831	166,734,813	14,005,934
2013	542,417,549	430,480,547	111,937,002	156,369,373	8,232,949

The Company's total capital and surplus was approximately \$144.1 million at December 31, 2017, an increase of approximately 57.7% compared to December 31, 2012. Surplus has increased in all five (5) years. The increase in capital and surplus is primarily attributable to an increase in net underwriting gains resulting primarily from an increase in written premiums for commercial lines policies. Net investment income contributed to the growth in capital and surplus as well.

## MANAGEMENT AND CONTROL

### Directors

The Bylaws provide that the Board of Directors (Board) shall be composed of not less than five (5) and no more than fifteen (15) persons. The stockholder, at its annual meeting, elects the members of the Board.

The following is a listing of persons serving as directors at December 31, 2017, and their principal occupations as of that date:

Name and Address	Principal Occupation
Michael Haran Lanza Newport, Rhode Island	Executive Vice President and General Counsel Selective Insurance Company of America
John Joseph Marchioni Sparta, New Jersey	President and Chief Operating Officer Selective Insurance Company of America
Yanina Montau-Hupka Milford, Pennsylvania	Senior Vice President and Chief Risk Officer Selective Insurance Company of America
Gregory Edward Murphy Sparta, New Jersey	Chairman and Chief Executive Officer Selective Insurance Company of America
Erik Alvin Reidenbach Fishers, Indiana	Senior Vice President and Regional Manager Selective Insurance Company of America
Vincent Matthew Senia Morristown, New Jersey	Executive Vice President and Chief Actuary Selective Insurance Company of America
Mark Alexander Wilcox Chatham, New Jersey	Executive Vice President and Chief Financial Officer Selective Insurance Company of America

## Officers

The Bylaws state the officers of the Company, who shall be elected by the Board, shall consist of a President, a Secretary, a Treasurer, and, if desired, a Chairman of the Board, one (1) or more Vice Presidents, and such other officers the Board may elect. The following is a list of key officers and their respective titles as of December 31, 2017:

<u>Name</u>	<u>Office</u>
John Joseph Marchioni	President and Chief Operating Officer
Michael Haran Lanza	Executive Vice President, General Counsel, and Corporate Secretary
Rohan Ajit Pai	Senior Vice President, Investor Relations and Treasurer
Gregory Edward Murphy	Chairman and Chief Executive Officer
Anthony David Harnett	Senior Vice President and Chief Accounting Officer
Mark Alexander Wilcox	Executive Vice President and Chief Financial Officer
George David Dufala, Jr.	Executive Vice President Insurance Operations
Vincent Matthew Senia	Executive Vice President and Chief Actuary

## CONFLICT OF INTEREST

Directors and officers are required to review and sign Conflict of Interest statements annually. It was determined that all directors and officers listed in the Management and Control section of this Report of Examination have reviewed and signed their statements as of December 31, 2017.

## OATH OF OFFICE

IC 27-1-7-10(i) stipulates that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly, and diligently administer the affairs of the Company and will not knowingly violate any of the laws applicable to such Company. It was determined that all directors listed in the Management and Control section of this Report of Examination have subscribed to an oath as of December 31, 2017.

## CORPORATE RECORDS

### Articles of Incorporation

There were no amendments made to the Articles of Incorporation during the examination period.

### Bylaws

There were no amendments made to the Bylaws during the examination period.

### Minutes

The Board and shareholders meeting minutes were reviewed for the period under examination through the fieldwork date. Significant actions taken during each meeting were noted.

IC 27-1-7-7(b) states an annual meeting of shareholders, members, or policyholders shall be held within five (5) months after the close of each fiscal year of the Company and at such time within that period as the Bylaws may provide. The Company's Bylaws state the annual meetings of the shareholders shall be held on the first Friday in May of each year at the principal offices of the Company or at such other date and place as a majority of Directors may previously designate. For each year under review, the annual meeting of shareholders was held within five (5) months following the close of each fiscal year.

SIGI's Board committee meeting minutes for the examination period, and through the fieldwork date, were reviewed for the following committees: Audit Committee, Corporate Governance and Nominating Committee, Executive Committee, Finance Committee, and Salary and Employee Benefits Committee.

### AFFILIATED COMPANIES

#### Organizational Structure

SIGI is the ultimate controlling entity of the insurance holding company system. The Company and its insurer affiliates, as shown below in this abbreviated organizational chart, are wholly-owned direct subsidiaries of SIGI.

The following organizational chart shows the Company's parent and subsidiaries as of December 31, 2017:

	<u>NAIC Co. Code</u>	<u>Domiciliary State/Country</u>
Selective Insurance Group, Inc. (SIGI)		
Selective Insurance Company of America (SICA)	12572	NJ
Selective Auto Insurance Company of New Jersey (SAICNJ)	11074	NJ
Selective Insurance Company of New England (SICNE)	11867	NJ
Selective Way Insurance Company (SWIC)	26301	NJ
Mesa Underwriters Specialty Insurance Company (MUSIC)	36838	NJ
Selective Casualty Insurance Company (SCIC)	14376	NJ
Selective Fire & Casualty Insurance Company (SFCIC)	14377	NJ
<b>Selective Insurance Company of the Southeast (SICSE)</b>	<b>39926</b>	<b>IN</b>
<b>Selective Insurance Company of South Carolina (SICSC)</b>	<b>19259</b>	<b>IN</b>
Selective Insurance Company of New York (SICNY)	13730	NY

#### Affiliated Agreements

The following affiliated agreements and transactions were disclosed as part of the Form B – Holding Company Registration Statement and were filed with the INDOI, as required, in accordance with IC 27-1-23-4.

##### *Service Agreement*

Effective July 1, 1995, the Company and its affiliates, SICSE and SWIC, entered into a Service Agreement with SICA, with SICNE as an additional signatory on January 1, 2004, and SAICNJ as an additional signatory effective July 1, 2006. Effective June 30, 2008, the agreement was amended to reflect the re-domestication of the Company and SICSE to Indiana. In addition, SICA entered into Service Agreements with MUSIC (effective January 1, 2012), SCIC (effective July 1, 2012), and SFCIC (effective July 1, 2012). Under these agreements, SICA performs certain administrative services for these affiliates, including accounting, actuarial, auditing, claims data processing services, legal, tax, telecommunications, and underwriting, and to make certain property, equipment, and facilities available for use.

Expenses are allocated back to its affiliates to be reimbursed based on the percentages set forth in the Third Amended and Restated Reinsurance Pooling Agreement (2013) (see the Reinsurance section of this Report of Examination). During 2017, the Company paid SICA \$35,348,835 under the terms of the agreement.

#### *Joint Investment Operations Agreements*

Effective July 1, 1995, the Company entered into a Joint Investment Operations Agreement with SICA and its affiliated companies, SWIC, SICSC, and SICSE, joined by SICNE (as of January 1, 2004), and SAICNJ (as of July 1, 2006). Effective June 30, 2008, this agreement was amended to reflect the re-domestication of the Company and SICSE to Indiana. In addition, SICA entered into Investment Operations Agreements with MUSIC (effective January 1, 2012), SCIC (effective July 1, 2012), and SFCIC (effective July 1, 2012). Under this agreement, SICA provides investment services to each of these affiliates on a cost reimbursement basis. During 2017, the Company paid SICA \$1,006,477 under the terms of this agreement.

#### *Amended and Restated Tax Allocation Agreement*

The Company and its affiliates, along with the ultimate parent, SIGI, file a consolidated federal income tax return. Effective January 1, 2012, the Company and certain affiliates entered into the Amended and Restated Tax Allocation Agreement, which covers the allocation, settlement, and financial statement presentation of current federal income taxes among companies in the consolidated income tax return of SIGI and its subsidiaries. The Company entered into the first amendment to the Amended and Restated Tax Allocation Agreement effective July 1, 2012, to add SCIC and SFCIC to the agreement. Taxes paid by the Company under this agreement during 2017 were \$8,330,927.

#### *Intercompany Revolving Demand Loan Agreement*

SICA and its affiliated companies, SWIC, SICSC, SICSE, SAICNJ, and SICNE, entered into an Intercompany Revolving Demand Loan Agreement effective as of June 1, 2006, amended as of June 30, 2008, under which SICA agrees to make revolving loans to each of these affiliates. Under a similar Intercompany Revolving Demand Loan Agreement between SIGI and SICA effective as of June 1, 2006, SIGI agrees to make revolving loans to SICA. No loans were made or outstanding under these agreements in calendar year 2017.

#### *Intercompany Revolving Demand Loan Agreement*

Effective as of March 31, 2009, SICSC and SICSE entered into Intercompany Revolving Demand Loan Agreements with their parent SIGI, under which SICSC and SICSE each agree, in their sole discretion, to make revolving loans to SIGI not to exceed 10% of their respective admitted assets, as of the preceding December 31. The loans are payable in full on demand, with interest payable monthly at the "Federal Funds Effective Rate" published by The Wall Street Journal. As of December 31, 2017, the outstanding principal balances were \$27,000,000 and \$18,000,000, respectively.

#### *Reinsurance Pooling Agreement*

Effective January 1, 2014, the Company entered into the third amended and restated Reinsurance Pooling Agreement (Reinsurance Pooling Agreement) with SICA, SWIC, SICSE, SAICNJ, SICNE, SICNY, MUSIC, SCIC, and SFCIC (collectively pool members). Under this agreement, each pool member cedes 100% of its underwriting activity (net of inuring third party reinsurance) to SICA, the lead company in the pool (see Reinsurance section of this Report of Examination for further information on affiliated reinsurance agreements).

### **FIDELITY BOND AND OTHER INSURANCE**

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by Federal Insurance Company whereby the Company is a named insured. The Company is insured for losses up to \$5,000,000 with a \$10,000,000 aggregate limit. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force at December 31, 2017, including but not limited to commercial property liability, employment practices liability, ERISA liability, management indemnity/directors and officers liability, professional indemnity liability, and workers' compensation liability.

### PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

SICA's primary pension plan is The Retirement Income Plan for Selective Insurance Company of America (the Pension Plan). This qualified, noncontributory defined benefit plan is closed to new entrants and existing participants ceased accruing benefits after March 31, 2016.

In addition to the Pension Plan, SICA also sponsors the Supplemental Excess Retirement Plan (the Excess Plan) and a life insurance benefit plan (Retirement Life Plan). Both of these plans are closed to new entrants and participants in the Excess Plan ceased accruing benefits after March 31, 2016. The Retirement Life Plan does not accrue benefits and this plan applies only to retirees who terminated employment with SICA on or before March 31, 2009. These are both unfunded plans with benefit obligations as of December 31, 2017 and December 31, 2016 of \$912,416 and \$822,656, respectively, for the Excess Plan and \$579,178 and \$566,200, respectively, for the Retirement Life Plan. Expenses recorded for the Excess Plan were \$34,372 in 2017 and \$44,582 in 2016. Expense recorded for the Retirement Life Plan was \$21,903 in 2017 and \$21,121 in 2016. The Company had no overfunded plans.

### STATUTORY DEPOSITS

The Company reported the following statutory deposits, at December 31, 2017:

State	Book Value	Fair Value
For All Policyholders:		
Indiana	\$1,996,296	\$1,979,218
All Other Special Deposits:		
Delaware	124,769	123,701
Georgia	59,889	59,377
Massachusetts	548,981	544,285
New Mexico	301,924	319,473
North Carolina	299,444	296,883
Tennessee	149,722	148,441
Virginia	249,537	247,402
Total Deposits	\$3,730,562	\$3,718,780

### REINSURANCE

#### *Reinsurance Agreements with Affiliates*

Effective January 1, 2014, the Company entered into the Third Amended and Restated Reinsurance Pooling Agreement with SICA, SWIC, SICSE, SAICNJ, SICNE, SICNY, MUSIC, SCIC, and SFCIC (collectively known as pool members).. Under this agreement, each pool member cedes 100% of its underwriting activity (net of inuring third party reinsurance) to SICA, the lead company, and then SICA retrocedes the net underwriting activity back to each pool member in accordance with each pool member's participation percentage as set forth in the agreement.

Effective January 1, 2014, the Reinsurance Pooling Agreement was amended to cause cessions under the agreement to be gross of collateralized reinsurance covers associated with catastrophe bonds, insurance-linked securities, or other collateralized reinsurance vehicles, if any, purchased by SICA, the lead company on behalf, or for the benefit of, the pooled members.

Following is a list of the companies participating in the Reinsurance Pooling Agreement and their respective contract percentage:

Name of Pool Members	Percentage of Pool	Domiciliary State
Selective Insurance Company of America	32.0%	NJ
Selective Way Insurance Company	21.0%	NJ
<b>Selective Insurance Company of South Carolina</b>	<b>9.0%</b>	<b>IN</b>
<b>Selective Insurance Company of the Southeast</b>	<b>7.0%</b>	<b>IN</b>
Selective Insurance Company of New York	7.0%	NY
Selective Auto Insurance Company of New Jersey	6.0%	NJ
Selective Insurance Company of New England	3.0%	NJ
Mesa Underwriters Specialty Insurance Company	5.0%	NJ
Selective Casualty Insurance Company	7.0%	NJ
Selective Fire & Casualty Insurance Company	3.0%	NJ
<b>Total</b>	<b>100.0%</b>	

*Reinsurance Agreements with Non-Affiliates*

The Admitted Companies assume required business from their participation in various voluntary and involuntary pools. The Admitted Companies had the following reinsurance program in effect at December 31, 2017:

Casualty

*2017 Workers Compensation Quota Share (various reinsurers)*

The Company ceded its Workers' Compensation residual markets (involuntary pools) business pursuant to a 100% quota share reinsurance agreement. The reinsurance limit per occurrence is the expected loss ratio for each covered jurisdiction plus forty (40) percentage points. The agreement contains a profit sharing provision whereby 50% of defined reinsurer net profit, up to seven (7) percentage points of reinsurer net profit, is paid to the Company.

*2017 Casualty Excess of Loss Treaty (various reinsurers)*

	<u>Retention</u> <u>Each Occurrence</u>	<u>Limit</u> <u>Each Occurrence</u>	<u>Aggregate</u> <u>Limit</u>
First Layer	\$2,000,000	\$3,000,000	\$78,000,000
Second Layer	\$5,000,000	\$7,000,000	\$35,000,000
Third Layer	\$12,000,000	\$9,000,000	\$27,000,000
Fourth Layer	\$21,000,000	\$9,000,000	\$18,000,000
Fifth Layer	\$30,000,000	\$20,000,000	\$40,000,000
Sixth Layer	\$50,000,000	\$40,000,000	\$80,000,000

Each layer is 100% placed with the participating reinsurers.



Property

*2017 Commercial and Personal Property Excess of Loss Treaty (various reinsurers)*

	Maximum Retention <u>Each Occurrence</u>	Reinsurance Limit Each <u>Occurrence</u>	Aggregate <u>Limit</u>
First Layer	\$2,000,000	\$,8,000,000	-
Second Layer A	\$10,000,000	\$30,000,000	\$120,000,000
Second Layer B	\$40,000,000	\$5,000,000	\$20,000,000
Third Layer	\$40,000,000	\$20,000,000	\$75,000,000

The Second Layer A provides per occurrence coverage on all covered risks, while the Second Layer B provides per occurrence coverage only on policies written on a blanket limit basis.

Each layer is 100% placed with the participating reinsurers.

*2017 Commercial and Personal Property Catastrophe Treaty (various reinsurers)*

	Maximum Retention <u>Each Occurrence</u>	Reinsurance Limit Each <u>Occurrence</u>	Aggregate <u>Limit</u>
First Layer (80% Placed)	\$40,000,000	\$60,000,000	\$120,000,000
Second Layer (95% Placed)	\$100,000,000	\$125,000,000	\$250,000,000
Third Layer (95% Placed)	\$225,000,000	\$250,000,000	\$500,000,000
Fourth Layer (90% Placed)	\$475,000,000	\$250,000,000	\$250,000,000

The Group purchased coverage for catastrophe losses outside of its historical footprint states primarily to protect the growth of their Excess and Surplus property book although this treaty covers the Group's standard lines as well.

	Maximum Retention <u>Each Occurrence</u>	Reinsurance Limit <u>Each Occurrence</u>	Aggregate <u>Limit</u>
First Layer (85% Placed)	\$5,000,000	\$35,000,000	\$35,000,000

Other Reinsurance

*2017 Surety and Fidelity Excess Treaty (various reinsurers)*

	Retention <u>Each Occurrence</u>	Limit <u>Each Occurrence</u>	Aggregate <u>Limit</u>
First Layer (90% Placed)	\$1,000,000	\$3,000,000	\$9,000,000
Second Layer (90% Placed)	\$4,000,000	\$5,000,000	\$10,000,000
Third Layer (90% Placed)	\$9,000,000	\$3,000,000	\$3,000,000

*Excess and Surplus Lines*

As part of MUSIC's acquisition by SIGI on December 31, 2011, MUSIC entered into several reinsurance agreements that together provide protection for losses on policies written prior to the acquisition and any development on reserves established by MUSIC as of the date of acquisition. The reinsurance recoverables under these treaties are 100% collateralized.

**ACCOUNTS AND RECORDS**

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the years ended December 31, 2016 and December 31, 2017, were agreed to the respective Annual Statements. The Annual Statements for the years ended December 31, 2013 through December 31, 2017, were agreed to each year's independent audit report without material exception. The Company's accounting procedures, practices, and account records were deemed satisfactory.

SELECTIVE INSURANCE COMPANY OF SOUTH CAROLINA

Assets

As of December 31, 2017

	<u>Per Examination*</u>
Bonds	\$ 469,968,243
Stocks:	
Common stocks	1,486,800
Mortgage loans on real estate:	
First liens	-
Cash, cash equivalents and short-term investments	11,475,395
Other invested assets	27,795,066
Receivables for securities	-
Subtotals, cash and invested assets	<u>\$ 510,725,504</u>
Investment income due and accrued	3,274,162
Premiums and considerations:	
Uncollected premiums and agents' balances in course of collection	24,087,475
Deferred premiums agents' balances and installments booked but deferred and not yet due	55,705,123
Accrued retrospective premiums	108,862
Reinsurance:	
Amounts recoverable from reinsurers	30,085,046
Other amounts receivable under reinsurance contracts	-
Current federal and foreign income tax recoverable and interest thereon	-
Net deferred tax asset	9,726,462
Guaranty funds receivable or on deposit	89,014
Electronic data processing equipment and software	-
Receivables from parent, subsidiaries and affiliates	9,429,006
Aggregate write-ins for other than invested assets	<u>4,741,158</u>
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	<u>\$ 647,971,812</u>
Total	<u>\$ 647,971,812</u>

\* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

SELECTIVE INSURANCE COMPANY OF SOUTH CAROLINA  
Liabilities, Surplus and Other Funds  
As of December 31, 2017

	<u>Per Examination*</u>
Losses	\$ 231,511,291
Reinsurance payable on paid losses and loss adjustment expenses	10,552,634
Loss adjustment expenses	53,560,786
Commissions payable, contingent commissions and other similar charges	7,843,647
Other expenses	7,630,631
Taxes, licenses and fees	2,761,303
Current federal and foreign income taxes on realized capital gains (losses)	2,033,788
Borrowed money and interest thereon	32,045,792
Unearned premiums	107,653,563
Advance premium	507,009
Dividends declared and unpaid:	
Policyholders	450,970
Ceded reinsurance premiums payable	44,166,113
Funds held by company under reinsurance treaties	-
Amounts withheld or retained by company for account of others	625,264
Remittances and items not allocated	-
Provision for reinsurance	38,342
Drafts outstanding	-
Payable to parent, subsidiaries and affiliates	-
Aggregate write-ins for liabilities	2,497,012
Total liabilities excluding protected cell liabilities	<u>\$ 503,878,145</u>
Total liabilities	<u>\$ 503,878,145</u>
Aggregate write-ins for special surplus funds	-
Common capital stock	5,000,000
Gross paid in and contributed surplus	26,231,209
Unassigned funds (surplus)	112,862,458
Surplus as regards policyholders	<u>\$ 144,093,667</u>
TOTALS	<u>\$ 647,971,812</u>

\* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

SELECTIVE INSURANCE COMPANY OF SOUTH CAROLINA  
Statement of Income  
For the Year Ended December 31, 2017

	Per Examination*
<b>UNDERWRITING INCOME</b>	
Premiums earned	\$ 206,192,403
<b>DEDUCTIONS:</b>	
Losses incurred	99,810,404
Loss adjustment expenses incurred	21,245,318
Other underwriting expenses incurred	72,069,118
Aggregate write-ins for underwriting deductions	136,957
Total underwriting deductions	\$ 193,261,797
Net underwriting gain or (loss)	\$ 12,930,606
<b>INVESTMENT INCOME</b>	
Net investment income earned	12,690,020
Net realized capital gains or (losses) less capital gains tax	(114,248)
Net investment gain (loss)	\$ 12,575,772
<b>OTHER INCOME</b>	
Net gain (loss) from agents' or premium balances charged off	(197,396)
Finance and service charges not included in premiums	536,832
Aggregate write-ins for miscellaneous income	823,509
Total other income	\$ 1,162,945
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	26,669,323
Dividends to policyholders	417,074
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$ 26,252,249
Federal and foreign income taxes incurred	8,324,817
Net income	\$ 17,927,432

\* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

SELECTIVE INSURANCE COMPANY OF SOUTH CAROLINA  
Capital and Surplus Account Reconciliation

	2017	2016	2015	2014	2013
Surplus as regards policyholders, December 31 prior year	\$141,854,970	\$127,856,208	\$ 115,106,831	\$111,937,002	\$ 91,367,191
Net income	17,927,432	17,396,093	15,864,281	14,005,934	8,232,949
Change in net unrealized capital gains or (losses) less capital gains tax	465	9,675	19,965	26,417	78,386
Change in net unrealized foreign exchange capital gain (loss)	-	-	-	-	-
Change in net deferred income tax	(6,562,924)	(644,595)	(1,112,884)	(304,943)	(546,755)
Change in nonadmitted assets	1,113,185	2,799,802	135,894	(671,173)	1,650,168
Change in provision for reinsurance	3,018	(24,393)	280,588	(146,640)	692,634
Cumulative effect of changes in accounting principles	-	-	-	-	-
Capital changes:					
Paid in	-	-	-	-	-
Surplus adjustments:					
Paid in	-	-	-	-	10,000,000
Dividends to stockholders	(10,000,000)	(5,000,000)	(3,260,000)	(5,000,000)	(1,000,000)
Aggregate write-ins for gains and losses in surplus	(242,479)	(537,820)	821,533	(4,739,766)	1,462,429
Change in surplus as regards policyholders for the year	<u>2,238,697</u>	<u>13,998,762</u>	<u>12,749,377</u>	<u>3,169,829</u>	<u>20,569,811</u>
Surplus as regards policyholders, December 31 current year	<u>\$144,093,667</u>	<u>\$141,854,970</u>	<u>\$127,856,208</u>	<u>\$115,106,831</u>	<u>\$111,937,002</u>

## COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to the financial statements as of December 31, 2017, based on the results of this examination.

## OTHER SIGNIFICANT ISSUES

There were no other significant issues as of December 31, 2017, based on the results of this examination.

## SUBSEQUENT EVENTS

The subsequent events period considered for the examination was December 31, 2017 through the date of the completion of this examination report.

The Group has filed geographical expansion plans and applications for certificates of authority in multiple states for both its personal and commercial lines business. The Group began writing business in Colorado in January 2018. The Group further received certificates of authority for Kansas, Nevada, Oregon and Washington, and had previously received certificates of authority for New Mexico, Utah, and Vermont. The Group plans to begin writing business in New Mexico and Utah in the 3<sup>rd</sup> quarter of 2018 and in Vermont and Washington in 2021.

Subsequent to year-end and through the end of January 2018, the Company and its affiliates experienced significant insured property losses, principally due to the following events: the deep freeze that impacted the Company's footprint states during the month, the Property Claims Services (PCS) named winter storm that occurred between January 3 and January 6, and a relatively large number of severe fire losses. For January 2018, non-catastrophe property losses amounted to \$47 million and catastrophe losses, which the Company defines as only those losses specifically attributable to a named PCS catastrophe, totaled \$16 million. In total, the \$63 million of insured property losses were approximately \$30 million in excess of property loss expectations for the month of January. The Company's pooled share of the Group's January property losses is approximately \$6 million.

Hurricane Michael made landfall on October 10, 2018 in the Florida Panhandle as a powerful Category 4 hurricane and continued into Georgia and other southeastern states. The Group's losses from this event are approximately \$10 million and the Company's pooled share of the Group's losses from Hurricane Michael would be approximately \$900,000.





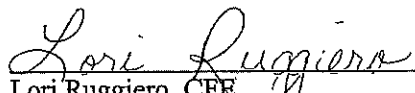
**AFFIDAVIT**

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the Indiana Department of Insurance and that she, in coordination with staff assistance from Noble Consulting Services, Inc., and actuarial assistance from the New Jersey Department of Banking and Insurance, performed an examination of Selective Insurance Company of South Carolina, as of December 31, 2017.


The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

This examination was performed in accordance with those procedures required by the NAIC Financial Condition Examiners Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standards and no audit opinion is expressed on the financial statements contained in this report.

The attached Report of Examination is a true and complete report of condition of Selective Insurance Company of South Carolina as of December 31, 2017, as determined by the undersigned.

  
\_\_\_\_\_  
Lori Ruggiero, CFE  
Noble Consulting Services, Inc.

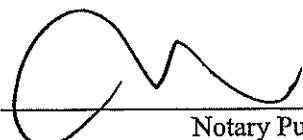
Under the Supervision of:

  
\_\_\_\_\_  
Jerry Ehlers, CFE, AES  
Examinations Manager  
Indiana Department of Insurance

State of: Indiana  
County of: Marion

On this 30 day of October, 2018, before me personally appeared, Lori Ruggiero and Jerry Ehlers, to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commission expires: July 4, 2019   
\_\_\_\_\_  
Notary Public

